ICAEW FINANCE & MANAGEMENT FACULTY

Risk management: mindfulness and clumsy solutions

FINANCE DIRECTION INITIATIVE

By Professor Philip Linsley and Dr Beth Kewell

ABOUT THE ICAEW FINANCE AND MANAGEMENT FACULTY

ICAEW's Finance and Management Faculty is a leading authority on financial management, the finance function and the role of the CFO. It provides its members with up-to-date business ideas, the latest management tools, unbiased and independent information and helps them to become an effective part of the management team. Membership is open to finance professionals with an interest in financial management.

Risk management: mindfulness and clumsy solutions forms part of the Finance and Management Faculty's *Finance Direction* thought leadership programme. The faculty has been producing material on risk management for many years. In 1990 ICAEW's Business Support Group, the forerunner to the faculty, produced *Managing business risk* as part of its *Guidance to good practice* series. It quoted Harold Macmillan, 'To be alive at all involves some risk'. The faculty's 2005 special report, *Risk management: a guide for finance professionals* stated, 'As finance professionals we are involved in risk on many different levels and, being in a central function, often (unknowingly) end up being the central risk manager.' This remains true today. Therefore it is important that we continue to provide insights on the topic of risk.

The authors of this report and the research participants have certainly made us think differently about risk management. The ideas presented are thought provoking and have significant practical implications. As ever, we would appreciate your feedback on the report. Please email FMFac@icaew.com.

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About the authors

Philip Linsley is Professor of Accounting and Risk at the York Management School, University of York. Philip has substantial research experience in the field of risk. He has published academic and practitioner papers in this area including authoring the 2011 ICAEW research report *UK bank risk disclosures in the period through to the onset of the global financial crisis* and contributing to the 2012 Institute of Risk Management (IRM) *Risk culture* thought leadership report. Philip is a member of ICAEW and has worked in practice and in industry.

Dr Beth Kewell is an author and academic who specialises in the study of risk comprehension, risk mitigation and risk governance. Her research has focused on evaluating the links between language, organisational culture and decision making in clinical, scientific and business-related contexts typified by high levels of uncertainty. Beth also maintains a keen interest in the philosophical attributes of risk science and risk measurement, having recently co-written *Risk: A Study of Its Origins, History and Politics* with Professor Matthias Beck of Queen's University, Belfast. Dr Kewell has worked as an academic in both the UK and Norway. She is currently affiliated to the London School of Commerce, as a Director of Studies for the Research Degrees Programme.

Executive summary

Managing risk successfully is of enormous importance to all organisations. The managers interviewed for this thought leadership project acknowledge that there are a range of challenges facing anyone with risk management responsibilities, but they have become adept at working through the associated difficulties. Importantly, they have avoided getting caught up in seeking to create perfect risk management systems and, instead, have developed what we describe as a 'clumsy solutions' approach to a 'wicked problem'.

Wicked problems, long recognised in the arena of public policymaking, are problems that are multifaceted, where cause and effect are hard to decipher, and where there is often no end point when we can deem the problem finally solved. Risk management can therefore be understood as a wicked problem; it is always a work in progress with managers looking to mitigate potential risks without stifling innovation, but continually having to review their ideas on what risks might arise in the future.

The term 'clumsy solutions' is used to describe a process for crafting solutions that can, somehow, work in the arena of wicked problems. 'Clumsy' does not denote that the solutions are in any sense substandard; rather the opposite is the case. Clumsy solutions, in the context of this project, recognise the demanding nature of the problems being confronted when managing risk and take into account that staff working within an organisation will hold different views on risk and risk management. Therefore, clumsy solutions are more likely to achieve buy-in from staff and to result in the organisation taking an approach to risk management that is appropriate for their circumstances rather than adopting a generic approach.

The overall approach to risk adopted by the managers interviewed is best described as a mindful approach to risk management and this assists them in being able to enact clumsy risk management solutions. A risk mindfulness approach includes an innate desire to be a reflective risk practitioner, being committed to engaging in risk debates in a robust yet open manner, and being willing to listen attentively to those voicing alternative views on risk and risk management.

These managers are best described as 'leaders on risk' and this is different to being a 'risk leader'. The emphasis of the 'risk leader' is on having wide risk management expertise; whereas this report contends it is more important to have a 'leader on risk' with a high degree of emotional intelligence. The emotionally intelligent leader on risk has an enhanced ability to influence others within the organisation to share similar risk values to their own. The aim is not to have everyone think about risk in identical ways but to nurture risk mindfulness in others.

Leaders on risk have successfully created risk groups comprising employees who hold different perspectives on risk but who have an attitude of risk mindfulness similar to themselves. These employees are drawn from across the organisation, and the open spirit in which they engage in risk debates facilitates their being able to challenge one another in a positive manner. This openness may be connected to their not having an expert status which they feel needs defending.

This risk mindful-clumsy solutions approach is advantageous in helping managers to confront the challenges of risk management in a calm and self-assured manner. The outcome is that risk management becomes normalised within the organisation and, in effect, a part of the 'business rhythm'. This does away with the need to hold discussions concerning how to embed the risk-management system. This state of being at ease with risk does not imply complacency; rather, it enhances the risk vigilance capabilities of the organisation and helps risk groups engage in the forthright risk debates that are necessary for the fashioning of clumsy solutions.

There has been substantial attention devoted to risk management over the last two to three decades. ICAEW commissioned this risk management report to look afresh at aspects of risk management. By introducing ideas concerning 'risk mindfulness' and 'clumsy solutions' we hope to initiate a new debate about the problems of managing risks and how these problems might be approached.

1. Risk in context

Dramatic shifts have occurred in the global political and economic landscape in the last decade and many of the world's social, political, and economic problems are judged profoundly difficult, if not impossible, to resolve. Such seismic shifts in the external environment imply it has become more challenging than ever for organisations to predict how the world might be, even in the near future. Likewise the potential consequences of any changes in the external environment appear equally difficult to pinpoint, placing great demands on those responsible for managing risk. At the same time there is relentless pressure on organisations (whether private, public or not for profit) to embark on change, restructuring and efficiency initiatives that have important implications for managers with risk management responsibilities. Added to this, many of these same individuals who are charged with the stewardship of risk governance are required to ensure their organisation complies with all necessary rules and regulations. In an environment where these regulatory measures may be perceived as growing exponentially, this is a further problem to contend with.

Alongside these mounting risk-management-related challenges, new ideas have evolved as to how to create resilient organisations and improve risk management capabilities. Over the last 20 to 30 years it is noticeable that a significant risk management 'industry' has developed. Professional risk management bodies have grown their memberships, and other professional bodies have redrawn their activities to take in risk management as a part of their remit. Risk management standards, such as *ISO 31000 Risk Management – Principles and Guidelines*[1], have been made available to guide firms in establishing generic risk management systems; while enterprise-wide risk management (ERM) approaches, such as the COSO Enterprise Risk Management – Integrated Framework[2], were created to advise on understanding an organisation's risks holistically rather than on a siloed basis. Alongside this growth of a risk management 'industry' there has been a broadening in the language of risk management with for example, discussions of 'risk culture' and 'risk appetite' becoming more prevalent.

It is, of course, difficult to establish whether the world is actually a 'riskier place' now than before; however, it is clear that risk is an inherent part of running any business enterprise and it has become commonplace for accounting and finance professionals to be employed in roles where they either have a direct responsibility for managing risk, or are expected to contribute in some other form towards the risk management endeavours of their organisation. Given that managers are expected to develop their organisations in a way which makes them risk resilient, ICAEW commissioned this report to help inform thinking on this crucial topic of risk management.[3]

The project has an overall aim of identifying how managers both perceive, and are meeting, the difficult risk challenges outlined above. By drawing on the experience that members of ICAEW and other contributors possess in managing the sometimes tricky, but always stimulating, 'risk interfaces' that lie between people, processes, relationships and reputations we can better understand how managers currently think about risk and how they approach the complex matter of managing risk. It was also important in undertaking the project to ascertain whether the managers perceive that there has been a fundamental change in the number and types of risks and uncertainties invading our lives, and if it is more difficult for the current generation of accounting and finance professionals to manage organisational risk than can perhaps be said of the past generation.

1 ISO 31000 was published in 2009 by the International Organization for Standardization (iso.org).

2 The COSO ERM Framework was published in 2004 by The Committee of Sponsoring Organizations of the Treadway Commission (coso.org). COSO is currently engaged in a project to review and update this framework.

3 Please see the appendix for an explanation of the research method used to compile the report. It should be noted that we deliberately excluded the financial services industry from the scope of the research.

Regardless of how the world has (or has not) changed, it is undoubtedly the case that ‘risk’ and ‘risk management’ are innately difficult concepts. For example, academics have long argued that we may not be able to identify and understand risks objectively, and this is because other factors, such as culture, may cause us to be potentially blind to some risks while we highlight other risks as being of greater significance than they warrant. Risk management is also innately difficult; one reason being that, fundamentally, risk management involves thinking about, and planning for, what might happen in the future and yet the future is essentially unknowable. This leaves the space open in any organisation for there to be differences of opinion on how to approach the task of risk management. In turn, this can lead to tensions regarding whether there will be sufficient support or buy-in for the risk management approach chosen by the organisation.

Acknowledging the future to be essentially unknowable is not to imply that risk management should be judged a fruitless exercise. Instead it highlights that ‘perfection’ in risk management is unlikely to be attainable and that managers have to look for fresh sources of knowledge and ingenuity if they are to build organisations that are resilient and can withstand fluctuations in global events, as well as those closer to home. Therefore, this report intends to stimulate further discussion among the business community about the problems of managing risks that require creative leadership solutions.

2. Confronting risk challenges – wicked problems and clumsy solutions

This section of the report discusses how the managers interviewed are confronting and contending with the complex challenges inherent in the management of risk. In the executive summary we noted that the managers we interviewed appear to have developed 'clumsy solutions' for confronting the 'wicked problem' of risk management. It is useful to explain this idea a little further at this point.[4]

WICKED PROBLEMS

'Wicked problems' describe the most difficult sorts of problems. These are multi-layered problems, where it is challenging to understand cause and effect, and where we can never be confident the problem has finally been solved. Risk management can therefore be understood as a wicked problem. Organisations may (indeed should) continually engage in a process of identifying potential risks, but can never be confident they have identified all possible future risks. There are many risks that are multi-dimensional and it can be highly problematic to mitigate some risks.

CLUMSY SOLUTIONS

The term 'clumsy solutions' is used to describe a process for crafting solutions that can, somehow, work in the face of these wicked problems. 'Clumsy' does not suggest that the solutions are in any sense inept or inferior; rather the opposite is the case. Clumsy solutions, in the context of this project, are advantageous as they recognise the demanding nature of the problems being confronted when managing risk and are able to take into account that staff working within an organisation will hold different views on risk and risk management. Therefore, clumsy solutions are more likely to achieve buy-in from staff and to result in the organisation taking an approach to risk management that is appropriate for their circumstances rather than adopting a generic approach.

FOUR PERSPECTIVES ON RISK MANAGEMENT

Writers such as Underwood and Ingram (2010)[5] have noted how, in any enterprise, there will always be different views or perspectives on risk management. However, the variety or range of perspectives is limited and, typically, four alternative views on risk and risk management systems have been found to arise. Underwood and Ingram have labelled these as 'manager', 'maximizer', 'conservator' and 'pragmatist' perspectives.

'Managers' believe the enterprise should recruit experts who can help in embedding a comprehensive risk management system; for example, an Enterprise Risk Management (ERM) system. The attraction of an ERM system is that it looks to understand and manage risk across the enterprise, and judiciously balances risks and rewards. The key problem is that those who hold to one of the other perspectives on risk will be unimpressed by the 'manager' perspective and will push against the adoption of the ERM system (or whatever other comprehensive risk management system is in its place).

'Maximizers' will perceive the system as inhibiting innovation and risk taking. In particular, they will view this system as impeding the enterprise from taking on larger risks that can potentially lead to higher profits. Maximizers accept that larger losses may arise from taking larger risks, but their judgement is that over time overall profits will exceed overall losses.

4 The idea of clumsy solutions has been suggested by those working in the domain of Douglasian cultural theory. For further discussion of clumsy solutions see for example, Verweij, M. (2011), *Clumsy solutions for a wicked world*, Basingstoke: Palgrave MacMillan. Note also, we need to recognise that there are some wicked problems confronting the world that are much larger than the wicked problem of risk management and that these other wicked problems are of profound importance.

5 Underwood, A. and Ingram, D. (2010), 'The full spectrum of risk attitude', *The Actuary*, August/September, pp27–32.

'**Conservators**' will think the system is insufficiently focused on loss avoidance. This group wants prudence to be at the fore, as it sees the world as harbouring significant uncertainties in all its corners.

'**Pragmatists**' think that any form of risk management system will, inevitably, be inadequate. This is based on the premise that the future is always unpredictable. Therefore, it is not sensible to put significant resource into a risk management system; instead, it is necessary to be pragmatic, to keep your options open as far as possible and modify your strategy as circumstances change and uncertainties arise.

Summary of the four risk perspectives

Managers

- Look to experts to implement a risk management system that carefully balances risk against rewards.

Maximizers

- Will challenge a risk management system that does not permit taking on larger risks, in the belief that highly profitable opportunities will otherwise be missed.

Conservators

- Will challenge a risk management system that is not focused on eliminating as much risk as possible.

Pragmatists

- Will challenge whether any risk management system is worthwhile given that the future is always unknown.

Source: based on Underwood and Ingram (2010).

WHAT IS A CLUMSY SOLUTION IN THE CONTEXT OF RISK?

The essence of a clumsy solution is that it is necessary to work with all four perspectives to find a solution that can, at least in part, be endorsed by all four groups. This is not so much looking to achieve a consensus (which is unrealistic because of the different views each group holds), but crafting a solution that has some appeal to all four of the risk perspectives.

Working with the four perspectives on risk implies the following.

- There should be a willingness to listen to the voices of all four perspectives in the debate on risk as they all have something useful to say about risk management.
- The organisation's approach to risk management needs fashioning to include features that have some accord with all four perspectives.
- There is a need to accept that the risk management approach may not fit with standard risk management frameworks.
- There is a need to recognise that incorporating all four perspectives into the risk management approach results in a better solution and achieves buy-in from holders of all four perspectives.

This may not result in the most elegant solution, but the nature of a clumsy solution is that it tolerates imperfection.

3. The (changing?) nature of risk and a mindful approach to the challenges posed by risk

Risk is unavoidable in most forms of human activity, from the business of everyday living through to business life through to the weightiest questions affecting civilization. It is appealing, from our 21st century vantage point, to look back enviously at apparently simpler-seeming times. That is, we may take the view that there has been an increase in risk and uncertainty in the world, and potential evidence for this might be provided by highlighting recent news events such as regional conflicts, terrorist activities, extreme weather patterns associated with climate change, or the outbreak of Ebola.

This view of risk being on an upward trajectory might also be supported by reference to writers such as Ulrich Beck who has made the claim that we now function in a 'world risk society'.[6] Underpinning the idea of a 'world risk society' is the contention that our lives now contain numerous risks that can be described as a 'man-made' by-product of scientific and technological advances. Hence, the suggestion is that the great leaps in science and technology in modern times have brought with them unanticipated and unintended risks which have the potential to cause significant harm.

The perspective that the past was more benign can lead to a presumption that for the managers of business enterprises there was a period in which business risks – both positive and negative – could be identified, clustered and 'ring-fenced' with a cleanness and efficiency that appears somewhat elusive today. However, this is not the view of the managers interviewed. They are not disposed to viewing the past as significantly less risky than the present. Instead they judge that the contours, edges and dimensions of risk have, in truth, always been more intricately framed than the collective cultural memory sometimes belies, making the past as difficult a terrain as our present and future.

Certainly, there are a number of risks and risk issues that have risen up the agenda – notably related to widening responsibilities to a range of stakeholders, cybersecurity, supply chains, social media and reputation (as discussed below) – but the past is not seen as a more halcyon period for risk and risk management. Therefore, while the interviewees tend to consider risk as more difficult to 'pin down' and the external environment a little more unpredictable than previously, they do not judge that it is more difficult to undertake risk assessments and risk management.

That the interviewees are not more anxious and do not see these as confusing times for risk is not solely related to their recognising that risk has been ever present; an additional aspect is related to their judgement that, overall, levels of risk awareness have risen across business enterprises. As described by one interviewee, they are more 'attuned to risk'. There are two important aspects to this. First, they and their work colleagues also engaged in risk management feel more comfortable living with, and more accepting of, risk. Therefore, although we might expect a heightened anxiety would arise from observing what sometimes feels like incessant bad news from news broadcasts, this is tempered by staff being more 'attuned to risk'. Second, there is a strong sense in which these managers and their staff are more reflective in their thinking about risk. This does not just mean they think widely about what risks might impact the enterprise; they also deliberate very carefully on why risk management matters and on its inherent difficulties and contradictions.

Given that we have just described that there is a relative ease surrounding matters of risk, it is important this is not misunderstood as complacency. The opposite is the case, with managers acknowledging that risk is, and always has been, difficult to manage. However, in the face of the difficulties that are inherent in risk management, what they are demonstrating can be described as **a mindful approach to risk**.[7] This approach is

6 Beck, U. (2008), *World at risk,* Cambridge: Polity Press.

7 The *Wall Street Journal* has recently contributed to a growing debate about the use of mindfulness training strategies, and emotional awareness techniques in the corporate sector, where they are gaining popularity and showing good productivity outcomes among big-brand names such as Goldman Sachs and Adobe Systems. See: Chen, A, (2015), 'Why Companies Are Promoting Mindfulness at the Office', *Wall Street Journal* [Online], 16 March 2015. Available at: blogs.wsj.com/atwork/2015/03/16/why-companies-are-promoting-mindfulness-at-the-office. Accessed 19 March 2015.

enabling them to look at risks in a calm and composed manner which, in turn, better assists them in identifying latent opportunities as well as unearthing concealed dangers across the organisation.

Significantly, this mindful approach is likely to be the key factor in the managers having sufficient self-assurance that they can create their own approach to risk management to fit the organisation and that encompasses clumsy solutions. They do not feel a need to follow the prescriptions of risk management standards on a rote basis. They will adapt different ideas about risk management systems to suit their purposes and, because they acknowledge that a perfect system is a myth, they actively encourage debates about risk and risk management as a way of wending their way through the contradictions that are a natural feature of risk management.

Risk mindfulness – being 'attuned to risk'

A reflective approach to risk and risk management leads to the following outcomes:

- acknowledgement that there are contradictions inherent in managing risk;
- acceptance that perfection in risk management is unattainable; and
- confidence to adapt the risk management system to fit the circumstances of the enterprise.

4. Two risks and two risk issues that have risen up the agenda

Before discussing the two particular risks and the two risk issues that have risen up the agenda, it is useful to note as a backdrop that a key change in the risk management agenda is that expectations have altered concerning who the business is accountable to. There is now a much greater onus on fulfilling responsibilities towards a wider stakeholder community, and managers of enterprises do not see themselves as solely accountable to shareholders. This widening of responsibility to a greater range of stakeholder groups perhaps marks a return to the past (before shareholders and shareholder value became the primary focus) and is particularly evident when it comes to 'people, the environment and sustainability'. Significantly, this widening of responsibility is not viewed as an additional burden or even an added complication in the risk management process, but simply as a function of good citizenship in a business context. Thus it is not something extra to be factored into the risk-identification process; it is simply considered a normal feature of doing business and, as such, is to be addressed as a matter of course.

Two specific risks that are a focus of attention currently are cybersecurity[8] and supply chain risk. Regarding both risks, this project did not focus on determining how companies are technically managing them but sought to better understand how managers are 'thinking about risk'. A key facet is that though attention is focused on these two risks, they are not seen as wholly new.

RISK ONE: CYBERSECURITY

Unquestionably, cybersecurity risk management requires companies to employ specialists who have the technical know-how to understand how to protect the enterprise and to ensure systems and data are not compromised, either intentionally or by accident. Business owners and managers also call upon the support of specialist consulting firms, academics and expert 'risk-gurus' for tailored help in their search for robust cyber resilience. However, cyber risk is also understood by the managers as a reworking of age-old forms of criminality, including theft, piracy, smuggling, and counterfeiting. Consequently, cyber risk is also representative of a timeless hazard for business owners and managers and there is a distinct sense that 21st century businesses are also dealing with new versions of old problems. Problems of highly organised criminality, the remodelling of terrorism, and the ever-present danger of rogue actors undermining the organisation from within do not solely require enterprises to draw on technically expert advice. Hence, managers are also drawing on their past experience and understanding of risk-related behaviours to identify and assess cyber risks; this is an important aspect of managing cyber risks as, ultimately, these risks arise out of human actions. Therefore, cyber risk is a candidate for a clumsy solution as it is salient to all four perspectives as outlined below.

8 For further information see ICAEW's cybersecurity resource centre (icaew.com/cyber) that has extensive resources for supporting businesses in managing this risk, including publishing specialist guidance such as the 2014 *Cyber-security in corporate finance* report.

Clumsy solutions – cyber risk as an example

The approach adopted has an appeal to all four risk perspectives.

Managers
Experts are employed to deal with the technical aspects of cyber risk, and to ensure enterprises have systems and policies in place concerning for example, IT security and data integrity.

Maximizers
The maximizer's approach is to manage cyber risk in a manner that enables the enterprise to fully engage with opportunities presented by the digital agenda.

Conservators
There is constant vigilance surrounding cyber threats and a zero tolerance approach to cybersecurity.

Pragmatists
Cyber risk is understood as having links to old risks that have always been known about, but that can arise unexpectedly in a new guise at any time. This may require the enterprise to react to new threats as they arise.

RISK TWO: SUPPLY CHAIN

Supply chain risk is also highlighted as a risk that is now the subject of greater attention. In essence, enterprises are recognising how reliant they are on other enterprises and that this includes 'more transient, quick relationships with third parties'. There is a recognition that inter-enterprise relationships have altered over the last 30 years or so and, in part, this is due to firms looking to become more cost efficient and lean as they seek to achieve improved returns. Therefore, while relationships between enterprises have always had to be maintained, it could be argued this move to leanness has altered inter-enterprise relationships. When risk events occur this has potentially unfavourable impacts on resilience as it is harder to obtain assistance and support from another enterprise if there is a weak relationship. One interviewee explained that some rethinking has occurred regarding this and it is now acknowledged that 'risk mitigation for some issues now requires putting money or inventory back in' to the enterprise to restore resilience. Therefore, like cybersecurity, supply chain risk is not seen as a wholly new problem. Doing business has always required working with other firms and managers have always had experience of relationship building with external parties, and they can now make use of this experience in the context of supply chains to look to restore relationships as part of their risk management. Similarly, managers have always engaged in decisions about how much of a buffer (whether this relates to inventory levels, staffing levels, cash levels or whatever) should be held to provide some appropriate degree of resilience in different areas of the business.

RISK ISSUES: SOCIAL MEDIA AND REPUTATION

We noted earlier that pinning risks down may be more difficult now. Two important, and interconnected, facets related to this concern social media and reputation.

Social media was raised as a risk issue, rather than as a risk per se, because of its ability to amplify risks and do so at a rate previously unknown. Risk events can instantly gather their own momentum and become misrepresented or manipulated as hearsay is added to fact via social media. Even if an enterprise confines its business activities to specific locations, social media stretches the fabric of the organisation by carrying potentially uncorroborated information to all four quarters of the compass. Controlling this is especially difficult because of both the speed of transmission and the geographical, social and demographic reach of social media. This is blurring the boundaries between what is inside and outside the enterprise, as internal events become externally known so readily. Further, what begins as a small, or even non-existent, risk incident can inflate and become a crisis with the potential for significant reputational damage.

Interviewees suggest that, alongside people and relationships, reputation is the most valuable asset a firm has; it was, in the words of one interviewee, the 'golden thread' holding the business, and its markets and supply chains together. Reputation was perceived as one of the most challenging assets to manage. But, while managing reputation presents challenges, this has also had an important positive effect. In particular, it has been a vital factor in increasing overall levels of risk awareness and in generating an attitude of risk mindfulness as discussed above.

It is noteworthy that most of our participants identified themselves as having a personal quest to protect the organisation against harm, which motivated their choice to want to lead on risk. Thus, while the challenges of managing risk to ensure reputation is not harmed could have resulted in their feeling rather powerless and fatalistic, instead it has driven them in an entirely different direction to become reflective practitioners of their risk management roles.

5. ‘Leading on risk’ versus ‘risk leadership’: emotional intelligence taking precedence over risk expertise

It is sensible that managers spend time safeguarding aspects of their businesses by drawing on technical skills, such as finance and accounting skills and engineering know-how. For example, these skills enable them to manage currency risk, undertake regulatory compliance activities, and control quality. As important, as many authors[9] point out, is the requirement to appreciate the significance of soft factors in achieving successful management outcomes. These soft factors involve motivating employees to adopt behaviours that are productive, value driven and reputation enhancing. Likewise promoting relevant behaviours in relation to corporate risk has become a priority for many firms as they look to propagate the perception of risk management as a normal feature of business.

The forms of behaviour which many organisations seek in relation to risk management require considerable use of ‘tacit skills’ on the part of managers. Tacit skills are needed to build effective relationships, and the essence of good organisational leadership is the ability to persuade others they should share the same values, commitments and loyalties as their employer, including those principles and obligations that relate specifically to risk management.

Research on the softer side of risk management tends to focus on advising how best to deter negative behaviours that might result in business disruption or sabotage. Only in some instances does this advice include positive strategies for encouraging good participatory behaviours among staff; however, these participatory forms of behaviour are what the interviewees are most focused upon bringing into being.

More specifically, the interviewees’ discussions were focused on deciding on the best means for persuading staff to adopt similar values to theirs on risk and, hence, their discussions centred on issues of leadership.

Leadership is synonymous in the professional realm and public consciousness with a type of personal performance that sets goals, realises visions, inspires enthusiasm, and forges the future.[10] Business leadership is associated particularly strongly with the successful negotiation of change, taking beneficial risks, and inspiring people towards similarly productive outcomes. The concept of the ‘emotionally intelligent leader’ is in the ascendant, and the belief that emotionally intelligent (EI) leadership can be a successful driver of organisational change is commonly held in the business world, as well as within management-focused think tanks, and academic circles.[11]

EI leadership recognises the need to ‘connect’ with followers on an intuitive level, and through this form of leadership managers are able to meet the goal of persuading colleagues to adopt the same or similar values when it comes to risk. Overall, it is judged that it is not comprehensive risk knowledge that is required of leaders in the context of risk management; it is the ability to be an EI leader who can influence those within the organisation to share similar values concerning risk. Therefore, what is being sought is not ‘risk leadership’ but those who can ‘lead on risk’.

It is important to note that the goal managers are working towards is absolutely not to have every member of staff thinking about risk in the same way; rather, that staff consider the topic of risk to be significant in three key respects. First, risk is to be understood as a nuanced topic and, hence, is worthy of reflection. Second, this reflection should lead to an appreciation that risk can be understood in different ways and viewed from alternative perspectives. This understanding should promote formal and informal debates about

9 See, for example: Wilson, D, (1992), *A Strategy of Change: Concepts and Controversies in the Management of Change*, London: Thompson Learning.

10 Gardner and Stough (2002), ‘Examining the Relationship between Leadership and Emotional Intelligence in Senior Level Managers’, *Leadership and Organizational Development Journal*, 23, 2, pp68–78.

11 Gardner and Stough (2002, p72) identify emotional intelligence as ‘the ability to manage positive and negative emotions within both oneself and others.’

risk among colleagues, while facilitating a better appreciation of alternative perspectives on risk. In turn, this increases the likelihood that clumsy-type solutions for managing risk can be found that are acceptable to the holders of different perspectives. Third, the end result is that discussions about risks become normalised and risk management is then not thought of as an add-on activity or accessory.

Leading on risk

Emotionally intelligent leadership on risk is focused on influencing colleagues to share similar values on risk.

The goal is not for everyone to think about risk in the same way, but to arrive at a consensus that:

- risk is a nuanced topic that merits reflection and open debate;
- there are diverse ways of thinking about risk; and
- risk management is a not a supplementary activity.

These shared values facilitate the diffusion of risk mindfulness across the enterprise and the fashioning of clumsy solutions.

6. Further aspects of risk mindfulness and organising risk groups

There have been debates in the field of risk regarding who should be involved in the process of identifying, analysing and managing the risks an organisation faces. This debate has usually been couched in terms of a divide between the risk expert (who has a specialist risk background of some variety and hence may be thought of as better placed to deal with its complexities) versus the lay person (who works on a more intuitive, and possibly, overly simplistic basis when grappling with risk issues, but may have some useful local knowledge). The participants in the study were very clear as to who should be involved in the process of identifying and managing risks, but the lay/expert divide does not properly describe how they view this issue. Rather it was the need to cut across organisational boundaries that was seen as the driving force for who should participate in risk processes.

Risk was described by contributors to our project as a constantly shifting contingency which companies were always chasing in terms of both opportunities and threats. This 'race against risk' requires that resources should be invested in keeping pace with opportunities and hazards that may be already present in the market place, or may arise in the future. Dealing with both sides of risk – that is to say, profitable risks and harmful risks – involves organisation-wide investment in the development of risk intelligence and resilience-ingenuity among organisational stakeholders. A great many companies have responded to this by investing in risk registers and the development of business continuity plans, designed to make the firm more resilient to hazards and vulnerabilities.

However, threats to the business can ignite from the smallest of internal and external combustion points, and opportunities can arise from unexpected quarters. This precipitates the need for constant watchfulness of the environment, paired with acute vigilance over the organisational interior. This is akin to following the example of Janus, the Roman deity of 'transitions,' and 'warden of the gates', whose remit as a sentinel was to 'look both ways at once.'[12]

Interviewees were occasionally apt to use the metaphor of the radar to depict this need for constant vigilance, in the sense that it was essential 'to spot things around the perimeters,' as well as survey the shifting contours of the political landscape to ensure that 'events themselves don't come marching through the door with brass band in tow'. The consensus was that constancy of watchfulness and astute intelligence gathering was best achieved via working groups and risk committees that cut across organisational functions, and through hierarchy. Risk analysis is a group effort, and a shared responsibility that spans the organisational hierarchy. It was suggested that the risk working groups and committees should have a changing personnel roster, with 'stakeholders from key areas of the business … a balance of individuals, not just a gathering of directors … with junior managers right up to director level.'

The individuals that the managers seek out for roles on risk working groups and committees are potentially kindred spirits from different functions of the enterprise, who can be developed to become mindful in their approach to risk. This mindfulness cannot be implanted; however, where there is an innate interest in risk, mindfulness can be nurtured. This does not require that individuals have risk expertise. This is not because the managers are anti experts. There is complete openness to learning from experts. For example, there is an acknowledged need to refer to experts when confronting technical aspects of, say, cyber risk. Further, because the managers are seeking out these kindred spirits, these colleagues naturally want to engage in accumulating good levels of risk knowledge and hence they may become risk experts in the future. In addition, those who want to engage with the risk agenda but who have not received professional training in risk management might be more able to think differently to one another. This will particularly be so if they come from different parts of the business. Different functions of a business can have different attitudes to risk (for example, engineers may think of risk

12 Ouzounian, A. 'Exploring the Mystery of Janus the God of Gateways'. Available at: plotinus.com/janus_copy2.htm. Accessed 19 March 2015.

mainly in terms of safety while sales people focus on product availability) and, therefore, a diverse risk working group has a broader variety of risk views. In addition, the spirit in which managers who are mindful of risk engage in the risk process is such that they can have a greater propensity to speak freely and challenge one another in risk debates. This may be because they do not feel they have an expert status to maintain and have an inherent interest in risk as a broad concept, not solely as an issue that needs addressing in the context of the enterprise. Overall, all these dimensions associated with their approach to risk aid in watchfulness and horizon scanning.[13]

Importantly, members of risk working groups that fit this description do not view 'risk' as a stand-alone concept. Instead, they intuitively sense risk as something that permeates the enterprise. This goes further than describing the staff as having an ability to understand how risk connects through to their roles and the strategy of the enterprise. Sensing the enterprise as infused with risk is to understand that risk cannot be decoupled from the enterprise. This intuition that risk and the enterprise are inseparable constructs explains why one participant described needing to understand risk as part of the 'business rhythm'. This underscores the importance of leading on risk being understood as an activity which involves encouraging others to hone their aptitude for sensing, reading and interpreting risks. One part of the job of a leader on risk is to know which people in which functional specialisms work best at sensing environmental fluctuations; that is, those who have risk mindfulness. Ensuring participation is varied sharpens the organisation's ability to identify problems and prospects, group risks into categories, and engage in hazard prevention and resilience building.

Earlier in the report we explained that a clumsy solution has to have some appeal to all four of the risk perspectives. Organising risk groups in the way described above draws in colleagues from all functions of the enterprise and the gathering of their risk views is, in essence, fashioning an informal or quasi-ERM system. They are scanning across the whole enterprise albeit in a manner that lacks much of the associated bureaucracy of a formal ERM system. This is potentially a good thing as it does not put off those whose risk perspective is incompatible with formalised ERM systems. Further, because the risk group embraces a range of views this facilitates the crafting of clumsy solutions that can have some appeal to all four perspectives. For example, one participant explained how they look for a 'good team with a balance of perceptions' as they wanted the voices of the different risk perspectives to be heard. The participant added that some people on the risk group 'tend to be more theoretical, they are looking for "mythical beasts" in places'. In essence, their perspective equates to having a focus on loss avoidance and fits with the 'conservator' risk perspective. This was compared to some people on the risk group who 'tend to be a little bit more sceptical of the mythical beasts, but are really concerned with what's out there in the woods that can get you'. These people can be likened to the 'pragmatists' risk perspective who see themselves as 'deal(ing) with the real world'. A further example of the importance of different risk views being voiced and heard in the risk groups was evident in the discussions regarding Black Swan events. There was a strong consensus that the media exerts an amplifying effect when it comes to the reporting of Black Swans that can make them appear disproportionately vivid, immediate, and imminent. Interviewees noted that potential Black Swan events need debating, but not to the exclusion of discussions of 'everyday' or 'normal' risks which are prone to accumulate as 'small risks that creep in'.[14]

Organising risk groups

A constant watchfulness is needed in the 'race against risk' and this is best achieved by creating risk groups that comprise individuals at all levels and from all areas of the business.

The attributes that are sought in group members are:

- a desire to learn, and think about, risk and risk management;
- a willingness to engage in risk debates in a spirit of openness that implies being able to challenge different risk views robustly yet respectfully; and
- intuitively sensing risk as permeating all parts of the enterprise.

13 Corporate intelligence gathering and the need for constant watchfulness of the business environment are also among the most important safeguarding practices identified within PwC's '18th Annual Global CEO Survey: A Private Company View', published by PricewaterhouseCoopers (PwC) in January 2015. Available at: pwc.com/gx/en/ceo-survey. Accessed 19 March 2015

14 The dangers presented by small risks represented a central theme of Professor Barry Turner's work on the mitigation of organisational crisis and disasters. See by way of introduction: Weick, K. (2002), 'Foresights of failure: an appreciation of Barry Turner', *Journal of Contingencies and Crisis Management*, 6, 2, pp72–75.

7. The role of recruitment, selection and training

Respondents were asked to consider how the professional training they had received contributed to the development of their distinctive interest in risk. Where appropriate, we also encouraged interviewees to consider whether this training had provided them with any additional advantages that they employ as leaders on risk. Interviewees identified at least one thread of continuity between their training and the work they perform now. This thread was perhaps at its strongest among the accounting professionals who contributed to our research. The thread was in the following vein: 'I think, when I did my training, it was very strongly focused on a risk based approach, it was your ability to assess risks … and your ability to think outside the box, how to make your audits more competitive, move away from analytical controls … working with different clients all the time … your ability to pick out whether a risk is material and land on that quite quickly.'

As a rule, the interviewees we spoke to had made a conscious career transition into a role that incorporated some degree of responsibility for leading on risk. To this end, several participants described how they had gravitated towards risk, as a theme with which they had a strong cognitive affinity, and a subject for which they had equally robust tacit abilities. The combined cognitive affinity and tacit abilities were supplemented by some predisposition to having a reflective attitude to risk and risk management.

When discussing the training needs of existing employees, interviewees responded by describing on-the-job training as the most effective resource for instilling values and encouraging behaviour modification on the part of trainees and existing staff members. The hiring of new personnel was a major opportunity for selecting people who might already be in possession of a risk-vigilant mindset and who could bring different perspectives. The selection process was described by several participants as involving numerous and varied tests of risk acuity and collaborative, team-building potential. The qualities 'leaders on risk' look for in employees were identified as dedication, conscientiousness, integrity and honesty. They were not looking for conformity to risk perspectives, but wanted to assess whether these new personnel would share their risk values while being willing to speak out and express their views in the risk debates.

Selection of new colleagues

New appointments are an opportunity to recruit staff who are already, or have the potential to be, risk mindful. The qualities sought are:

- intuitive risk vigilance;
- ability to work cooperatively; and
- conscientiousness and integrity.

8. The mixed blessings of technology and formal processes

Our research indicates that respondents view the compiling of risk registers a core business task. This corresponds with their view that risk management is an integral, not an add-on, activity and that risk is understood as permeating the enterprise. Similarly, we gained a strong overall impression that most participants viewed reporting on risk management activities and outcomes as much more than a formality. Risk registers were perceived to be an invaluable asset to the business that contributed towards resilience building within the company and through to its supply chain. There was a consensus among interviewees who commented on paper-based reporting that the process of reporting should be collaborative, team-based and backed by serious intentions and actions. When properly completed, reporting processes were said to genuinely reassure the organisation and its governing board that they had acted to manage risk in a robust manner. Risk reporting was also seen as an important means for convening cultural changes to encourage 'conscious thinking about risk' throughout the business. Risk registers tended to be seen as an important form of monitoring which enabled managers to achieve long-lasting risk-control symmetries across functions, departments, and teams.

Managers have access to an abundant market for risk management software programmes whose purpose is to support managers in their efforts to secure a given enterprise's financial and operational wellbeing against a preponderance of current and future threats. However, several participants at interview shared the belief that good risk assessment should be kept 'reasonably simple'. These managers were concerned about technological dependency in the sense that software simulations, modelling programmes, decision-support software, databases and the current vogue for 'big data' and intelligence gathering via social media were likely to perpetuate forms of information overload and this would potentially detract from risk identification.[15] There were also concerns it could undermine individuals reflecting on, and debating, potential risks and their management in a thoughtful manner; in this way it would undermine achieving a mindful approach to risk management. It is vital to the risk management process that there are these ongoing risk debates as it is through these that the different risk perspectives are articulated and clumsy solutions negotiated. This viewpoint was aptly expressed in the following terms: 'I would be quite reluctant to move down the modelling of risk scenarios too intensely … I'm a little bit anti-computer systems … (they) provide lots of data very quickly but (it) prevents people from analysing … has taken away the ability to think, risk is all about thinking, you want someone to do the headline analytics themselves, with pen and paper, let's not just think of risk, tap it into the machine, (there is) too much of that nowadays.'

By way of contrast, there were advocates for decision-support software, who argued cogently that they could be simple yet effective tools for capturing and analysing knowledge and information, derived from competing sources. If used **judiciously** for particular tasks, then risk simulation software, modelling and scenario planning tools, big data, and other intelligence-gathering tools were considered helpful in the task of remaining watchful at a global level. For example, one participant explained that software was used for the purpose of enhancing 'transparency in the supply-chain, to capture live data, map it out, to have real-time alerts around 500 suppliers; (we) can't scale that without technology'. Therefore, in such cases technology is being used carefully so it does not act as a barrier to the nurturing and honing of risk-group members' abilities to intuitively 'sense the environment'. Hence, for some enterprises, the thoughtful use of decision-support technology and risk management software can assist participants in engaging in risk debates.

Technology is not the most important thing

Technology should be used carefully so as not to hinder risk mindfulness; it is of fundamental importance there is 'conscious thinking about risk' across the organisation.

15 It is useful to remember that the focus of the project was on non-financial firms. Inevitably, financial firms will make extensive use of 'technology' in managing risk.

9. Conclusion

Over the last two to three decades there has been increasing importance placed upon embedding risk management systems into organisations as a means for developing risk-resilience capabilities. The managers interviewed for this thought leadership project have gone beyond the embedding phase of risk management; within their organisations risk management has become fully normalised as part of the routine of managing the organisation. However, the managers' approach to risk management is certainly not routine; they are highly reflective about risk and risk management, and are prepared to go beyond following the prescriptions of a standard risk management system. To this end they spend considerable time thinking how to adapt risk management systems to fit their organisation, how to initiate meaningful risk-related debates, with the intention of working around the difficulties that are a feature of risk management.

This reflective disposition is indicative of their having adopted a mindful approach to risk and risk management. A risk-mindful approach results in enhanced risk vigilance as there is a greater sensitivity to how changes in the environment might affect the organisation. Risk mindfulness is also beneficial in helping managers to confront the challenges of risk management confidently and with a sense of ease. Being 'attuned to risk' in this way is a precondition for being able to construct clumsy solutions that take account of the different risk perspectives that are inevitable in any organisation. This requires having the confidence to acknowledge that risk management is a 'wicked problem' and an ideal risk management system is unachievable. For this reason risk management software and associated technologies are used judiciously, and this is to ensure risk mindfulness is not inhibited and the environment can be sensed intuitively.

These managers have taken on the role of being leaders on risk. Leading on risk is less to do with having high levels of risk expertise and more to do with drawing on reserves of emotional intelligence to encourage and develop colleagues towards sharing similar risk values. This creates within the organisation a spirit which incorporates a desire to reflect upon and learn about risk and risk management, and a willingness to engage in robust and open debates where the different risk perspectives have their voices heard.

Key messages from the thought leadership project

- **Risk mindfulness** is a means for enhancing risk-vigilance capabilities.
- **Clumsy solutions** can achieve greater buy-in and enhance risk management in the organisation by taking into account different risk perspectives.
- **Leading on risk** to influence others to share similar risk values is achievable for emotionally intelligent managers.
- **Risk spirit** encompasses a desire to be reflective and engage fully in risk debates, and is important for achieving risk mindfulness across the organisation and fashioning clumsy solutions.

Appendix: preparation of the report

The initial working title for this risk management thought leadership report was 'Understanding risk in confusing times', and the summary proposal is set out as follows.

The working lives of professionals necessarily involve regular encounters with uncertainty and risk. However, 'risk' is a complex term and is understood in multiple ways. The proposal is that the risk thought leadership report will examine and discuss:

1. The principal ways in which 'risk' can be understood and defined.
2. In what ways these multiple meanings of risk may be causing managers to be increasingly fearful of risk despite expending more time and effort on risk management activities than ever before.
3. How an understanding of the multiple meanings of risk can assist managers who are responsible for the risk management process in these 'confusing times'.

An initial focus group discussion comprising ICAEW staff (eight participants) was held. This helped us to prepare a broad set of questions for a series of semi-structured interviews that were undertaken with ICAEW and some non-ICAEW members who have a responsibility for managing risk in some form in the enterprise where they work. In total 10 interviews were obtained. With the exception of one interviewee, all were working in non-financial companies.

Interviewees were selected by drawing on ICAEW's existing networks, contacting managers who were known to have an interest in risk and risk management. Effectively, the group of participants was self-selecting as potential leaders in the field of risk management. As the purpose of the interviews was to gather data for inclusion in a risk management thought leadership report it was considered appropriate that the interviewees were likely to be within this category.

Interview questions were phrased to avoid influencing interviewee responses, as this might lead to bias in the interview data. Each interview typically lasted for approximately 60 minutes. Semi-structured interviews were selected as they provide flexibility for both interviewers and interviewees to explore wider issues and themes related to the question topics.

The principal themes that arose out of the interviews have been discussed within the main report. These themes may not all appear to be wholly aligned with the initial remit of the proposal. It is inevitable that this will occur when interviews are used as the research method. What is important is that these are the themes that were of most significance to the interviewees. It is useful to note that the interviews revealed that managers were not fearful of risk, and did not perceive these to be 'confusing times' for risk; instead, they were confident in their risk management and did not judge the world to have become more risky. That the results run counter to the conjectures set out in the initial proposal tends to suggest that the interviewers succeeded in not influencing interviewees' responses.

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ICAEW
Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK

T +44 (0)20 7920 8451
E FMFac@icaew.com
icaew.com/financedirection

linkedin.com – ICAEW Finance & Management Faculty
twitter.com/icaew_FinMan
facebook.com/icaew