# Working with Risk

## In practice and in principle: Lessons from the field

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Quotes from the interviews are used to illustrate points throughout the report.





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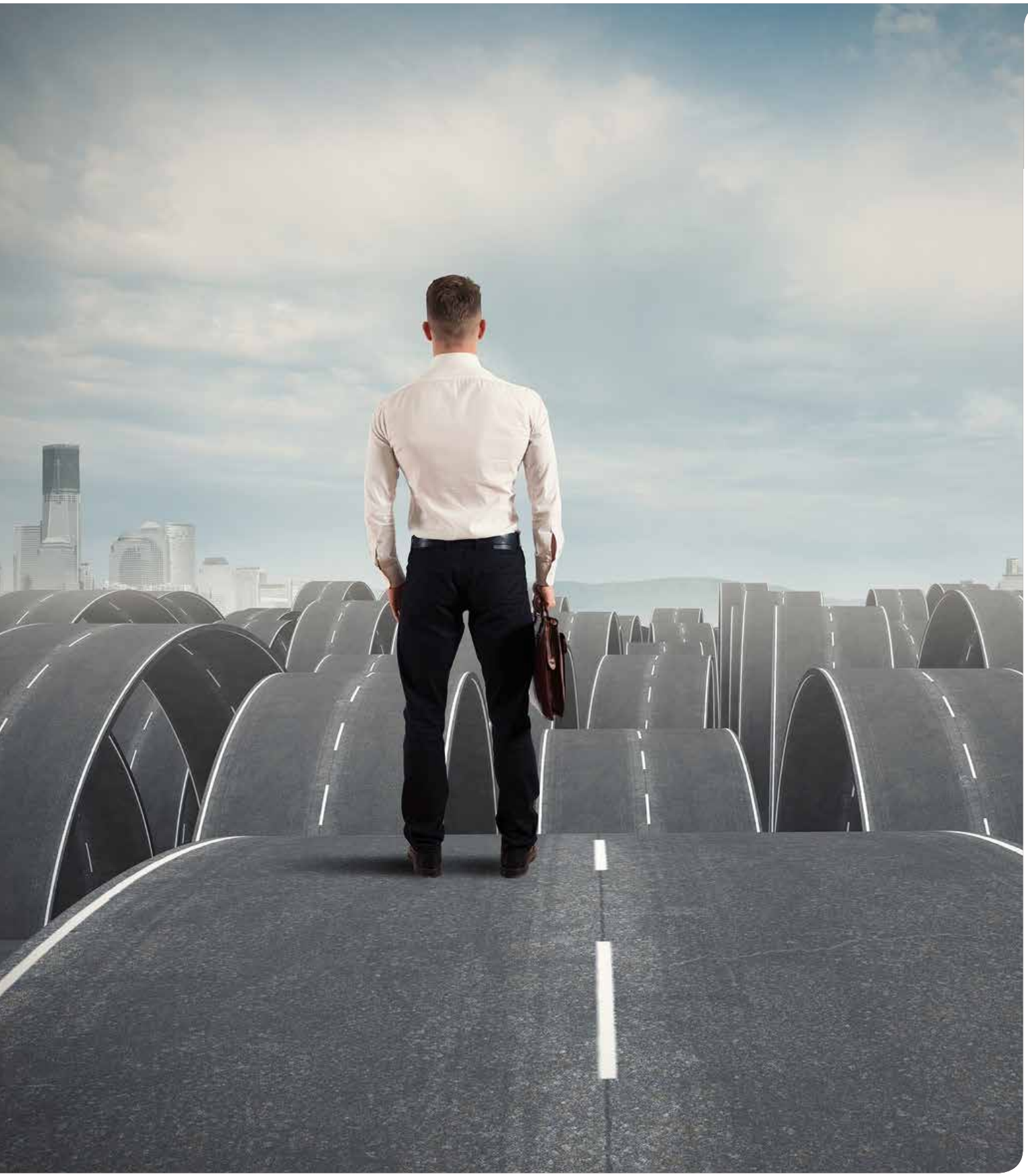


# EXECUTIVE SUMMARY: WORKING WITH RISK

## How do senior managers think about and work with risk?

By understanding more about how managers actually think about and work with risk, beyond the parameters of existing theory and advice, we explore the complexity by attempting to place risk in the contexts of managers. This will help other managers think about what risk might mean to them within and beyond their own environment, and to think about what is useful and what gets in the way.

First, we introduce the multiple ways in which risk is defined by managers themselves. From this, we identify two approaches to risk, drawn from the interviews described on page 11, which help our understanding of the ways risk plays out; these approaches are *formal* risk and *informal* risk. By drawing this distinction, we are able to provide some insight into how managers talk about risk in relation to illusion, their principles, accountability, change, leadership and people across different contexts.

We follow this with six sections that develop the theme to provide some insight into risk for managers. In the body of the report, each section provides conclusions as well as the implications for senior managers thinking about and dealing with risk.

Throughout the report, we draw on the interviews described on page 11 and existing literature to help make sense of risk for managers.

## Defining risk in different ways

Managers talk about risk as an important part of their job but have different understandings of what it is and how they view it. Much of that is context-dependent and much of it relates to experience. Being aware of the needs of the context, your perception and the understanding of others in relation to risk is vital.

> "I don't think there are any right or wrong answers - that's the problem. You know, whatever sector, if you work in one sector, you can be very sure about it. But as I've worked with 4 year-old little boys to 40 year-old engineers; very creative and loose environment to a very risk-averse environment - it's incredibly difficult to be dogmatic about one perspective."

- **Ask yourself 'What do you understand risk to be?'** Then importantly, ask others the same question.
- **Don't make assumptions.** Check for common understanding with colleagues of what is meant by risk, and how it is viewed. For example is it a negative or positive thing?
- **Develop vocabulary.** Clarify definitions around different aspects of risk – this report suggests some that might be useful for managers

Interviews were analysed thematically and a framework was developed to explain the findings in terms of the research questions.

## Formal and informal approaches to risk

When managers spoke about risk, the subject broadly fell into two approaches. One is formal, objective and evidence-based, and the other is informal, intuitive and experience-based. Both approaches have their merits and each needs to be considered as part of thinking about, talking about and dealing with risk.

"Well you'd have your bottom line as a solid risk register of 'Yes I'm aware of this, I'm managing risk financially' and tick, tick, tick, tick. But actually, when you have an entrepreneurial mind-set, you sort of have almost peripheral vision of all the things happening around you. And being able to absorb all of that and respond to that in quite an intuitive, perhaps less structured way, and also prioritise quite intuitively and perhaps respond at speed to things that are happening."

- **Consider both formal and informal approaches.** Be aware of each approach and understand the pros and cons of each, with a view to using each as appropriate.
- **Use elephants and tigers for imagery.** The connotation for both animals are good. *Elephants: big strong, wise, long memories. Tigers: flexible, fast, intuitive*.
- **Risk does not start and end with risk management.** Many people do not use this term as part of their risk vocabulary, and even when they do, it can either be a process or a skill.

## The illusion of risk

There are potential illusions present for both formal and informal approaches to risk. With formal risk, the illusion is that risk has been controlled for – and that someone somewhere must have thought about it. With informal risk, there can be an illusion for people who describe it as common sense; common sense for one person may not be common nor make sense to another. Also, this can undermine what it takes to do it well, with little attention to bias and assumption.

- **Look for illusion.** There can be illusions in both formal and informal approaches to risk, which may be embedded in your approach.
- **Seek balance.** Having aspects of both formal and informal approaches when thinking about and dealing with risk, as appropriate, can provide a balance to moderate the shortcomings of each.

"I think the danger that very highly-regulated environments can create the illusion that risk is under control, yet, underneath your nose, the most appalling tragedies and mismanagement of risk are happening. Risk – risk can be very illusionary. Also the management of risk can be very – can create the illusion that things are under control when they absolutely are not.

## Working with principles

The principles that individuals hold have a bearing on how managers deal with risk – in design, decisions and outcomes. Principles can include, but are not limited to, integrity, values or 'good intention'. A formal approach to risk can stifle attention to principles whereas an informal approach, while enhanced by shared principles, requires transparency to understand decisions based on them.

"For me, I work to core values and principles and then the rest will come, and I think I've got those over. It's been interesting for me because, when I started off saying, well, you've got risk management, financial risk management, you've got managing potential future events, dependency, stuff like that. But at the end of the day, the principles are the same no matter what the topic is - the principles are the same."

- **Consider how principles impact on risk.** Look at the extent to which your own principles or organisational principles impact on your assessment of risk, and then the resulting decisions that you make. Is level of riskiness mitigated by the 'rightness' of the decision?
- **Check that formal approaches make allowance for important principles.** While formal approaches to risk are often created with the best intentions, managers need to check and adjust for the unintended consequences of decisions which conflict with important principles.

## Who is accountable?

Accountability is an essential part of any approach to risk. *Individual accountability* provides a mechanism to ensure that essential parts of a process are administered without gaps and with transparency and correctness. However, individual accountability can create behaviours which lead individuals to protect themselves before managing risk. *Collective accountability* takes a relational approach as trust and communication play a vital role to draw out what is at stake and what influences outcomes, as failure is generally distributed across the collective. Collective accountability alongside individual accountability when working with risk provides an opportunity for greater sharing of risk perceptions, and better informed decision-making as a result.

> "The things that I focus on are making sure that people have clearer accountability for their risk responsibilities and so that is outside the risk function. I think that it is really important that the concept of risk ownership within the business is vital. I think setting up a framework that gets the information out of the organisation in as painless way as possible is really key, but is also relatively simple."

- **Watch out for accountability that inhibits effective risk approaches.** Avoid a management approach which effectively penalises individuals and limits discussion of possible failure; this can restrict important conversations about risk and limit opportunities to surface informal risk concerns.
- **Consider ways to take advantage of individual and collective accountability.** Develop an effective approach to handling risk which capitalises on both individual and collective accountability.

## Risk in change: Risk in not changing

A major challenge facing managers is that people perceive change as risky. Formal approaches to risk can be bound by process, while informal approaches to risk can be free to make progress. However, progress and process need to be considered together, as taking a 'one-size-fits-all' to process can get in the way of making progress, whereas a short-term focus on progress can undermine communication and limit learning. Either way – managers need to be aware there is risk in not changing.

> "They think that change is risk and they want to avoid the change. So they don't believe that we have the responsibility to make progress. I happen to think we have a duty to make progress and you can't make progress without change, so there is changes, so there is risk associated with change; but sometimes the risk associated with change is no greater than the risk of not changing at all."

- **Pay attention to the balance of process and progress to unlock beneficial change.** Addressing risk and change with a balance of process and progress provides both risk approaches with a valuable role to play. Formal approaches to risk capture information to communicate and learn, while informal approaches develop trust in individual intuition and group process to openly discuss and evaluate risks which can be the key to dislodging 'stuck' organisational behaviour.
- **Evaluate the risks of not changing.** Formal risk approaches combined with an understanding of market forces and underlying trends, together with an informal understanding of risk, can provide balance against the perceived risk of change.

## Leaders: Responsible for the frame of risk

Of particular importance was that managers say leaders should be *held* responsible and *feel* responsible for the management of risk, and importantly, provide the frame for others to understand and act. This was in relation to both formal and informal approaches to risk. Challenges occurred when leaders did not did appear to take this responsibility, undermined efforts of others managing risk, or created confusion through inconsistency. These inconsistencies were seen when leaders did not articulate an appropriate frame of risk for the context or when they said one thing and did another. Being prepared to listen to the bad news as well as the good creates an environment for managers to tell it how it is.

> "You have to continually ask yourself whether you as the individual leader of an organisation are setting the right tone in terms of the appetite for risk and helping people understand; and what are the circumstances in which it's OK to take more risk than in other circumstances. Then to try and take a portfolio approach to it, and have some things where you will be very risk-averse, and some areas where you'll be continually evaluating whether you've got the balance right."

- **Discover your leadership approach to risk.** Consider the pros and cons to formal and informal approaches to risk. Articulate a frame of risk which reflects the different contexts of an organisation, makes sense and provides consistency for those working within it.
- **Share the leadership of risk.** Engage and enable individuals across the organisation to feel responsible for scanning the environment, identifying threat and opportunity while testing assumptions about decisions and impact.

## People: Risk as a 'human endeavour'

Consistently, there was a high regard for people who are able to consider the implications of risk and importantly, be able to communicate that well, engaging and enabling others to think about and work with risk day-to-day. However, risk is often viewed as the responsibility of those with occupational experience, an attention to detail or an appreciation of the controls and processes needed to keep it on track; in effect, risk gets 'taken care' of by someone considered expert. However, unless that person is able to communicate well, 'risk' does not translate to other people. Distributing expertise by engaging and enabling individuals to take responsibility for thinking and working beyond minimum requirement provides greater scope for them to participate meaningfully.

> "In some cases, a chaotic environment, with highly-capable and competent people, who are spotting for – spotting out for the risks, can sometimes be, paradoxically, safer than a regulated – very highly controlled and regulated environment."

- **Engage and enable people to take responsibility for risk.** Challenge assumptions that risk is being managed separately by experts. The opportunity to participate meaningfully comes from ownership of risk.
- **Encourage conversations about risk.** Allow for contribution from across the organisation by providing time and space for people to think and talk about risk. Develop understanding and a shared language of risk, both within your own context and beyond, to improve quality of information and communication. In this way, both formal and informal approaches can contribute to each other.

# INTRODUCTION

## Our purpose in researching this subject

The initial interest in the subject of risk came from our increasing awareness of clients mentioning 'risk' or 'risky', and indicating a sense of frustration that the frequent response to dealing with risk is to create a framework of certainty by mapping, measuring, monitoring and mitigating against it. Our observation was generally that clients were talking about risks in their organisation, but often with undertones of personal risk.

In the literature, advice for managers seems to collude in a need for simplicity and certainty to drive out risk – but in reality, risk is a complex phenomenon which appears even to defy definition. Though many attempts have been made, a clear definition of risk which captures its complexity remains elusive. The problem with definitions for complex concepts like risk is that they are in danger of saying all and nothing at the same time, touching on specific aspects of risk but perhaps unable to capture how the concept of risk resonates with managers working with risk every day.

By understanding more about how managers actually think about and work with risk, beyond the parameters of existing theory and advice, we explore the complexity by attempting to place risk in the contexts of managers. This should help other managers think about what risk might mean to them within and beyond their own environment, and to think about what is useful and what gets in the way. First, we introduce the multiple ways in which risk is defined by managers themselves. From this, we identify two approaches to risk, drawn from the interviews, which help our understanding of the ways risk plays out; these are *formal risk* and *informal risk*. By drawing this distinction, we are able to discuss the challenges managers face in different contexts and for different reasons.

By identifying the challenges in light of the two types of risk, it was possible to provide a context to *better understand* and simplify some of the complexity in terms of the illusion of risk, the principles, accountability, change, leadership and people. So for example, the illusion that risk is being managed exists for both types of risk, but how that manifests itself will be different. Similarly, the challenge of creating accountability for risk means different things in different contexts. These, and other challenges, are presented and explored below. Throughout the report, we draw on the interviews described overleaf and existing literature to help make sense of risk and to provide some insight for managers.

# METHODOLOGY

## Our approach

Rather than make assumptions, work from an existing framework or test a hypothesis about working with risk, we decided to take an inductive approach so that our understanding could emerge from the managers themselves. Through interviews, the question we wanted to answer was:
**How do senior managers think about and work with risk?**

## What we did

To answer this research question, we identified managers who are working with risk both directly and indirectly. The managers we spoke to were identified through the network of the researchers, their colleagues and associates. We developed a simple categorisation of the managers we spoke to so that we captured a broad range of voice. These were:

- Managers working with *high risk* contexts, for example, front-line health, military, emergency services, oil and gas
- Managers working in *commercial* organisations that make money from working with risk, for example insurance companies, actuaries, risk consultancies, investment companies, brokers and investors
- Managers working in organisations that are not in the former two categories but where, nonetheless, working with risk is an indirect part of the job.

## The interviews

We spoke to 34 managers who were risk specialists and/or organisational leaders from a comprehensive range of industry sectors, including healthcare, finance, legal, manufacturing, technology, housing, insurance and IT. We conducted 34 semi-structured interviews with each interview lasting between 40 - 60 minutes. Questions focused on the manager's personal experience of thinking about and dealing with risk. Where possible, interviews were held by phone (with the exception of a few that were face-to-face) and, with the permission of the interviewee, recorded. All responses were anonymised.

The interviews had five sections of questions. The first section asked about 'You and your role'; the second asked 'How you think about risk, in principle?'; the third asked 'How you work with risk, in practice?'; the fourth asked for stories about working with risk, both good and bad; and the fifth asked 'What better would look like' in terms of thinking about and working with risk.

The semi-structured nature of the interview enabled researchers to focus on the central question of the research with the flexibility to enquire as necessary, given the responses to questions. All interviews were transcribed and analysed to identify common themes. From these themes, it was possible to identify the different ways that risk is dealt with in principle and in practice, as well as the challenges these bring. We were then able to develop the implications for managers in general.

### The job titles of those interviewed

Director of Governance; Associate Director of Culture Change; Auditor; Business Partner; CEO; CEO and Founder; Chairman; Chief Financial Officer; Chief Risk Officer; Director for Innovation and Design; Director General; Director of Communications; Director of Enterprise Delivery Management; Director, Enterprise Delivery; Executive Vice President; Finance Director; General Manager; General Partner; Global Director; Group HR & OD Director; Group Treasurer; Head of Consulting; Senior Manager; Senior Vice President.

# DEFINING RISK IN DIFFERENT WAYS

As we wanted to understand how managers define risk for themselves, we simply asked *'What do you understand risk to be?'* While there was not a unanimous understanding or definition of risk from our respondents, we did find a general pattern of response where most people initially spoke of risk as a contributing factor, which results in harm or damage to people, the organisation or to the achievement of objectives. Many, but not all, went on to talk about how risk can also provide potential opportunity. Some then described risk as a process for identifying and controlling for outcomes, for others risk was balancing the choices available to them. Lastly, a number talked about risk as an acknowledgment that some things are just unknown and out of our control.

## Risk as a contributing factor

Often, the first answer given in response to the question *'What do you understand risk to be?'* was that risk was related to factors which might contribute to potential negative outcomes, such as **harm** or **damage**. Risk is *'all those things that could possibly go wrong'* and *'anything that could compromise organisational effectiveness'* with an impact on people, facilities, the business and, in some cases, society.

"So for me, risk is all those things that can possibly go wrong, and really saying, well, have I managed that risk?"

"It is something that could happen in the future. It has got potential to cause harm rather than is causing harm; or is affecting the achievement of your objectives."

The initial definition given by most respondents reflects the findings of March and Shapira (1987) who suggest that in general, managers tend to focus on end states which bring potentially negative consequences and to see risk as distinct from opportunity. This may be due to a tendency to overlook positive potential outcomes in the consideration of risk in order to focus on the negative – the so-called *asymmetry principle*, where negative events are more visible than positive ones and are often more distinct. However, risk decision-making is dependent on what is considered to be *success* and *failure* which is complicated by the *subjective* nature of the concept of loss (Crowe and Horn, 1967) and the relative nature of the concept of loss (Kahneman and Taversky, 1979). A principle of Damodaran (2008) is that "*Risk is a mix of upside and downside. Good risk management is not about seeking out or avoiding risk but about maintaining the balance between the two".* (p. 369).

## Risk as a process

Several of the managers we spoke to referred to risk being a process to identify, quantify and assess what is at stake, how it could go wrong and where to use resources to influence the outcomes. In this definition, risk is a verb, a doing word, rather than a thing, or an outcome. Risk as a process creates an opportunity to think about and deal with risk proactively rather than reacting to something that may or may not happen.

"It's really just the process of thinking through and identifying what could possibly go wrong and what are you going to do about it, so you thought about it before and really had a clear-minded opportunity to think about it."

"Well, I'm a chess player by background, so risk has always been influenced in my mind by the assessment of options and the relative reactions that will happen as a result of you making a move, and being able to think beyond the next move to a series of moves and then deciding, based on the position you're in, whether you want to be defensive, aggressive, wait for your opponent to make a mistake or create an environment where they'll make a mistake, using the chess analogy. So risk is assessing your choices and making the best decision for what you're trying to achieve."

"It's inevitable that you can't be in control of everything."

"We need to acknowledge that there's much more uncertainty and unpredictability in the system than we can possibly imagine."

"It is the things that can't be planned for, the uncertainty, both the known unknowns and the unknown unknowns. People plan for the known unknowns but the things that really throw them off are the unknown unknowns. So it is the stochastic variables of life, is risk."

## Risk as uncertainty

Other managers defined risk as the acknowledgment that some outcomes are out of their control and recognised it is not possible to plan for every possibility; attempting to control for *any and all* outcomes takes time, energy and resources. Dealing with uncertainty can be difficult and designing processes to systematically prevent negative outcomes is appealing. However, being prepared to accept uncertainty about specific events and enable people to recognise and respond appropriately if and when the unexpected arrives allows managers to better use resources – both internal and external.

Breakwell (2009) has suggested that there is a strong link between the *sense of control* an individual feels in a situation and their *experience* of that situation. This is supported by the range of studies (Siegrist, 2000) which suggest that the more *familiar* a person is with a risk situation or the more they know about the source of risk and the potential consequences, the lower their perceived level of risk. This suggests that having more experience and familiarity of risk increases what we feel we can control and decreases our perceived level of risk. Therefore, controlling for the *response to risk* rather than the risk itself allows us put uncertainty into perspective with what might otherwise be overwhelming.

## Is risk a shared concept?

Having established that managers describe risk in a variety of different ways – as both a noun and a verb – we asked them whether the definition they offered was widely shared with their colleagues or whether it was relatively special to them. While several people said with certainty their understanding was shared, the majority of managers said that they believed/thought/assumed their view was widely held amongst their colleagues. Only a handful thought their understanding was special to them as they said their colleagues had a different approach or level of understanding. We cannot say for certain to what degree the understanding of risk was actually shared with colleagues as we only know what they told us. However, given the wide range of definitions offered in the interviews and in the broader literature, and given the variety of contexts managers are working in, it is not unrealistic to consider the differences in definition at this simple level have potential to create confusion or incongruence at a more complex level – both within and between contexts: professions, teams, organisations or industries.

### Shared with certainty

"Whether it be financial, product quality, consumer safety, reputation, regulatory affairs, environment health and safety and legal. All of that is, is very well codified and actively managed through the governance structure of the organisation. So, speaking as someone who is quite new to the organisation, you can come into it and, whilst you may not know all of this, it's very easy to tap into that because you can be pretty sure that there is a policy and a procedure, and escalation strategy, if you like, for almost any aspect of business risk."

### Probably shared

"I would say it's an evolving area but I think that it's a generally held view, in terms of internal auditing anyway. I wouldn't like to say what management think."

"Yes; I don't think they'd vocalise it quite so extravagantly as I've done but yes, that's it. It's dealing with those unknowns that you've got to make a judgement on before you start out."

### Not shared

"I could maybe think of a handful of colleagues I could have this conversation with who would get it. I think generally other colleagues, senior leaders and managers would say 'We're actually in a closed system. We're able to control things from here. We know what's going on out there. We're economists! Things are, to a certain degree, predictable'. Predictable because quite frankly many of them would say: 'Well, I've been here 25 years and this is the way it is. And we've never known uncertainty really'."

*National Health Service

"No and I think, particularly when I consider innovation and what is and isn't happening in the NHS*, I think risk is perceived particularly by senior leaders in a different way."

"I'm not sure that they do, because I've inherited a management team and a staff base who have been, and still are, very much caught up in the culture, which as I mentioned earlier is a very risk-averse business."

## What is at stake?

Managers spoke about what was 'at risk' or 'at stake' and described what they need to protect or consider when making decisions. For some, there was a clear priority on keeping people safe which included the governance and controls required to ensure that happened, for example, managers working in clinical environments. For others, their primary focus was on their organisation's reputation and maintaining value for stakeholders (regulators, customers and shareholders). Several people spoke about the risk of not remaining within the law – so the regulatory process itself was at stake.

Others use 'operational pillars' as a way to qualify what is at stake, and the risks associated with them, for example, financial risk, execution risk, compliance risk as well as operational execution risk, each being considered separately and together. This is by no means exhaustive but it provides a sense of how managers call what is at stake to mind.

"I'm trying to put this in simple terms without quoting any technical term, but it really is 'what is at stake?' So when you say risk, in my mind I think of, usually, the four operational pillars, the financial risk, the execution risk, it's the compliance risk as well as your operational execution risk; so really being able to manage that, to quantify what is at stake."

For others, what was most at stake was maintaining and protecting their own personal risk in relation to organisational risk, which had the potential to impact on their personal reputation or career progression. For some high-risk industries, this could result in professional or legal sanctions. Using the resources available to them to influence organisational risk helped individuals manage their own personal risk. Resources included personal resilience, persuasive reasoning and using different types of evidence to support their decisions.

## Conclusions and implications for managers

### Conclusion

Managers see risk as an important part of their job but have different understandings of what it is and how they view it. Much of that is context dependent and often relates to experience. Being aware of the needs of the context, your perception and the understanding of others in relation to risk is vital.

### Implications

- **Ask yourself 'What do you understand risk to be?'** Then importantly, ask others the same question.
- **Don't make assumptions.** Check for common understanding with colleagues of what is meant by risk, and how it is viewed. For example is it a negative or positive thing?
- **Develop vocabulary.** Clarify definitions around different aspects of risk – this report suggests some that might be useful for managers.

# FORMAL AND INFORMAL APPROACHES TO RISK

In broad terms, beyond the initial definitions and descriptions of the different ways managers talk about risk, we identified two approaches to dealing with risk: a *formal risk approach* and *an informal risk approach*. The two approaches to risk are not dichotomous or set on a spectrum; they can work side by side and can overlap. In fact, where managers found most challenges and where they had the most influence was where the approaches crossed or merged. The distinction between formal risk and informal risk provides a useful way to differentiate how managers think about and deal with risk in terms of purpose, challenge, outcomes and impact. Many of the discussions around risk produced a series of interlinked themes which adjust depending on the context that managers are working in, the outcomes they are hoping to achieve and as importantly, the processes they are working with.

Cline (2004) recognised the duality of risk through his research on the etymology of risk. By looking at the history of the word 'risk', it becomes clear that through the process of transcription and translation across the centuries, risk has moved from incorporating the notion of context and perspective to one related to outcomes: *"Risk is not simply the 'perils' that are relevant, but rather the courageous gestures people made in interaction with those perils"* (p.7).

## Formal risk – at its simplest

Formal risk involves an assessment of risk using objective, quantifiable and evidence-based outputs. Often in response to regulation (compliance, governance, legal or industry standardisation), the focus is on high visual sharpness and encourages accuracy and timeliness in an attempt to reduce subjectivity.

When formal risk is designed and implemented well, with core intentions and values at its inception, it can provide a frame for everyone in an organisation to categorise and work with risk. This may be when identifying and mapping what is at stake, or when monitoring the environment, or ultimately, when making decisions, both local and across the organisation. Formal risk should be coherent within its own context and enable individuals to recognise and report what is important to the organisation and themselves. Importantly, formal risk provides a frame for procedure where process and individual accountability are as *important* as the outcomes themselves.

Formal risk often occurs where there are high-stake outcomes which impact on physical safety, financial survival or regulatory standards. This may be to prevent accidents, poor design or legal sanctions. Formal risk is essential where there is a requirement to comply with regulation and governance, either by choice or by obligation. Institutionalising the controls required to withstand scrutiny from external regulators and audits requires consistency and standardisation; this in turn helps institutionalise good practice to provide predictable measurement and outcomes. Controls may be designed to limit errors; this is important where mistakes can result in high impact negative outcomes. Individuals are able to identify and work with policies to safeguard what is at stake. From here, it is possible to map and manage risk across an organisation by accumulating and distilling information at central points, such as functions or committees, where decisions can be made regarding mitigation, with potential to affect individual and organisational outcomes. There is also scope to take advantage of the controlled environment to test hypotheses in systematic ways.

"We have a backbone of risk management throughout the company which is almost what the company does. In a hospital environment, risk is what we do – managing risk."

"We are a heavily, heavily regulated and highly visible industry and we have really quite extensive governance processes that look at all aspects of risk, so we have clear governance around the nature of risk, around how it's managed with policy and procedure that actually covers pretty much all aspects of risk management."

## Informal risk – at its simplest

The focus of informal risk is broad-ranging and multi-dimensional, making use of wide channels of information, and of more intangible and subjective processes to consider risk. Informal risk requires peripheral vision to scan the environment and provides space for generating hypotheses.

Sometimes referred to in the interviews as *instinct, gut feel* or *common sense,* this requires an inherent responsibility to consider what is at stake by looking for threat or identifying opportunity. There is no one single focus of informal risk; *three-dimensional, entrepreneurial, holistic and peripheral-vision* are also words used by the managers to describe the way informal risk perceivers scan their environment. Any and all information has the potential to influence informal risk and information flow is encouraged.

Managers here are protecting what is at stake while looking for opportunity to make gain, both incremental and large scale. There is scope for speculation but this should not to be confused with gambling; these decisions are based on experience, knowledge and understanding of the environment, the risks and the gains involved. It has been shown by March and Shapira (1987) that managers often reject comparisons drawn between risk-taking and gambling, and believe that successful management of risk involves skill rather than chance – it is suggested here that informal risk capitalises on the perception of that skill. Trust and communication is key, as while decisions may not be based on objective and quantifiable data, the reliability and credibility of the individuals, their information and the decisions they make is vital. Informal risk still requires individuals to justify their decisions and actions, but if carried out for the right reasons, experimentation and mistakes are tolerated. In pursuit of innovation and growth, there is a freedom to fail.

"Well you'd have your bottom line as a solid risk register of 'Yes I'm aware of this, I'm managing risk financially' and tick, tick, tick, tick. But actually, when you have an entrepreneurial mind-set, you sort of have almost peripheral vision of all the things happening around you, and being able to absorb all of that and respond to that in quite an intuitive, perhaps less structured way, and also prioritise quite intuitively and perhaps respond at speed to things that are happening."

"Quite a lot of it will come down to an element of gut feel. And the experience that we've had with the potential client, moving up to the point of entering the financial risk ... We will normally have built up a, a feeling, an understanding of the client and have a feeling as to how straightforward it's going to be. Now, if we feel it's gonna be very straightforward and they've behaved very honourably and seriously and done what they've said up to that point, obviously that will swing the financial needle somewhat more to a relaxed area."

## Tigers and elephants

When describing the launch of a new technological product, one of our respondents described two teams that worked towards the launch as 'tigers' and 'elephants'. His view was that it was the combination of the two that led to the sustained success of the launch. We suggest that this might be a useful way to visualise the two approaches to risk: tigers representing the informal approach to risk whereas elephants represent the formal approach to risk.

"The major thing that comes now from the risk context was how to manage the speed and still having the control and managing the risk. We did the approach called Tigers and Elephants. You can have one tiger in the one forest and he can manage, but if you have too many tigers, it will be chaos in the organisation, so I wouldn't suggest anybody of having only tigers. We need to have elephants so you are having a good basic structure and policies and things in place. But if you have occasion that you need to get something fast or making something that is creative, then you're probably best establishing one tiger. The connotation for both words are good: the elephant is a good one, they are big ones, they are strong ones, they are like long-timers, they have wisdom, they have long memory, all that kind of good functional history and continuation and that kind of element is part of elephants. And the tigers are flexible, were driven by speed, they were definitely not building anything big for a long time; they were more like hunters."

## Risk management specifically

Interestingly, while the phrase *risk management* was mentioned as an important aspect for many people thinking about and dealing with risk, a third of those we spoke to did not specifically mention it at all; which is why we have focused on approaches to risk generally and not risk management specifically. When discussing *risk management*, the managers who spoke about it described providing reassurance that an *organisation's objectives* can be met; some described it as a process while others described it as a skill. Importantly, while *risk management* was central for some people working with risk, for example, a senior auditor who mentioned it 36 times, this was not the case for other people thinking about and working with risk.

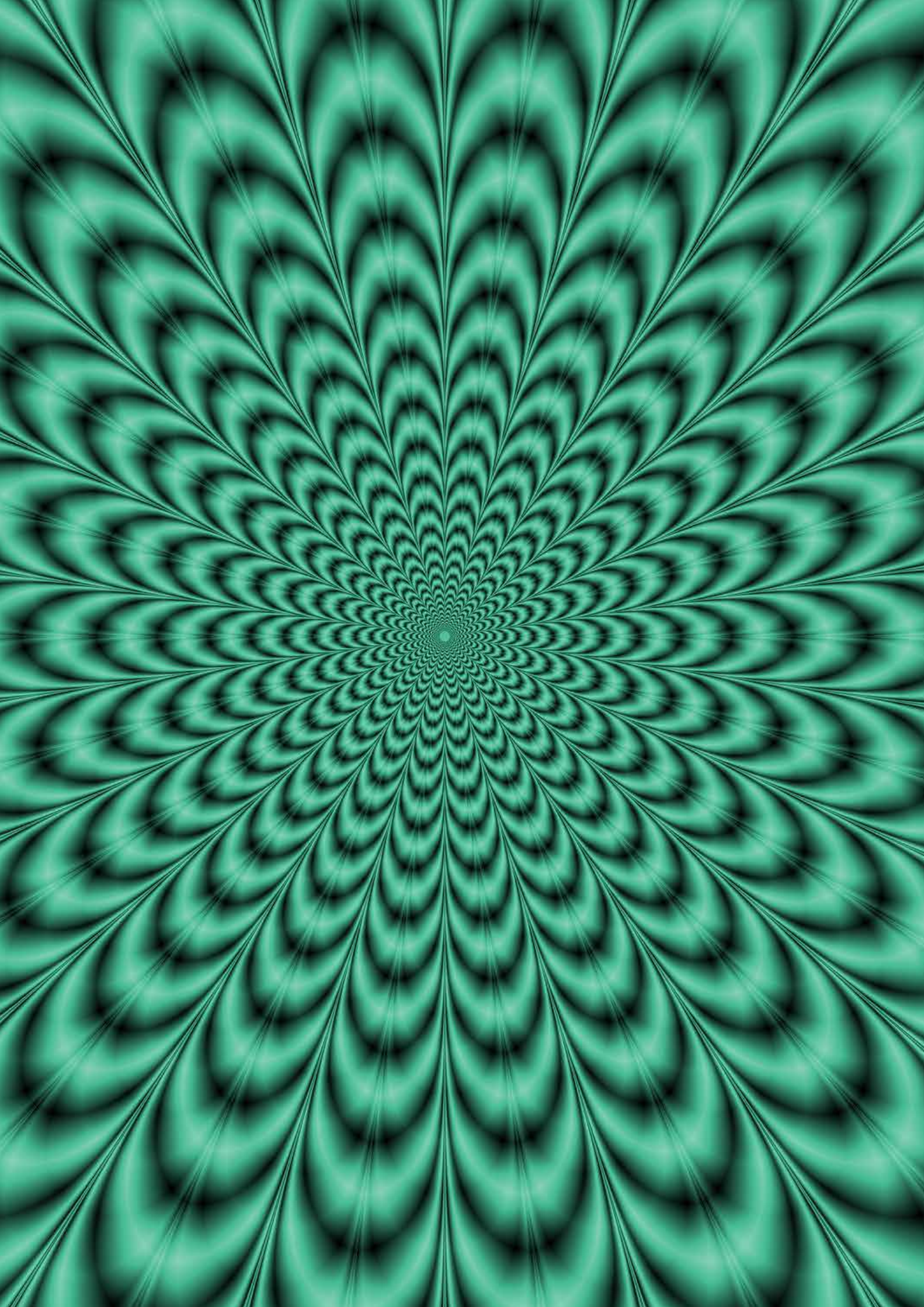
# Conclusions and implications for managers

## Conclusion

When managers spoke about risk, the subject broadly fell into two approaches. One is formal, objective and evidence-based and the other is informal, intuitive and experience-based. Both approaches have their merits and each need to be considered as part of thinking about, dealing with and talking about risk.

## Implications

- **Consider both formal and informal approaches.** Be aware of each approach and understand the pros and cons of each, with a view to using each as appropriate.
- **Use elephants and tigers for imagery.** The connotations for both animals are good. *Elephants: big, strong, wise, long memories. Tigers: flexible, intuitive, fast.*
- **Risk does not start and end with *risk management*.** Many people do not use this term as part of their risk vocabulary, and even when they do, it can be either a process or a skill.



# THE ILLUSION OF RISK

## Our approach

Illusions have much to do with the human condition which is fraught with biases and misconceptions, raising the potential for risk to be perceived where it does not exist, or not perceived where it does. From the interviews, it became clear that both formal risk and informal risk can create the illusion that risk is being dealt with, when in fact, it is not. The illusion stems from an assumption that someone, somewhere is dealing with risk – either as a formal risk or informally. However, as we found, this illusion can lead to potential harm and opportunities being missed.

## The *illusion* of formal risk

When risk is considered as part of a formal risk approach, designed and developed by people whose job it is to think about, manage and be responsible for risk, there is an illusion that all risks are being managed and that there can be little that has not already been considered. However, because the rational process of formal risk is valued for protecting the organisation from harm, it is difficult to challenge its design and implementation based on informal risk perceptions, which at best are the intuitive observations of highly-capable people and at worst may be seen as irrational and based on little evidence.

At its simplest, formal risk standardises mapping and monitoring, for the community to respond to 'what' they need to do and not necessarily 'why' they are doing it. And so, the process itself can become a proxy for individual responsibility as individuals delegate risk, responding to the process rather than responding to the outcomes of potential harm or opportunity.

The illusion continues as individuals trust that the process itself will notice something significant; that someone somewhere will have thought about it and that something will be done about it. However, this is not always the case; in fact, according to the managers we spoke to, this created a challenge for them, as while organisations design and develop structurally decent formal risk assessments, they can only ever be as good as the people who contribute to them, both in relation to the design of the framework and in terms of providing the information needed to map and monitor risk and to make decisions.

Creating salience of the outcomes and helping people understand the impact, for example, by finding ways to put 'safety' back into Health and Safety and 'care' back into Duty of Care, can be a challenge when people are used to responding to a process. Developing the capability of individuals to think critically to identify risk and opportunity both in the world and in the processes used to capture it – and then be able to speak up – is also a challenge. Added to which is the challenge of providing an observable process that allows for new information and interpretation of risk, yet can be identified and categorised.

> "And I think the danger that very highly regulated environments can create the illusion that risk is under control and yet, underneath your nose, the most appalling tragedies and mismanagement of risk are happening. Risk – risk can be very illusionary. Also the management of risk can be very – can create the illusion that things are under control when they absolutely are not"

> "No management structure, no project delivery managing programmes, all these things that the IT world has, are going to stop a colossal failure. They just can't. They help, they give you structure, it means you're in a well-ordered environment, great. But if people aren't telling you what's going on, or people aren't clear what they're meant to be doing; if people don't see the risk over the horizon; you will fail and we are repeatedly failing over and over and over again."

"In a more mature business, you would have a risk committee which I strongly believe is really a very, very good governance tool. However it can make it become somebody else's role and responsibility to adhere to it, and monitor it and report etc. So I think it is absolutely an integral part that the risk is actually part of every employee of the company."

"In a clinical environment, this is something that is very, very pertinent within the NHS at the moment. And to a certain extent, our own environment, is that people's own judgement about what is going on, which actually a risk management process cannot pick up, and gets subjugated by the management of the process."

"The danger with risk is that it pervades, so if you are working in a regulated environment, there are certain things which have to be regulated and the mind-set that that creates in terms of the way you work – so you become very, very mindful of the rules and regulations which you have to work towards. The danger within – the danger of that is that people abdicate their own personal judgement to the processes of managing risk."

"If you do not have income, you're not generating money, you're not generating business, there's no point in having a wonderful risk register, and there's a danger, I found in my last business, was that, due to lack of experience, so much of it was heads down doing things properly (whatever that means, in inverted commas) rather than running a business and having things that were appropriate to the size, the type, the pace, the stage of development, the type of team."

"Risk is not about risk registers that are in filing cabinets. Nobody owns it, nobody feels it in their hearts, nobody is really that concerned about it, even though some of the risks that are written down are blooming scary risks."

## The *illusion* of informal risk

Several of the managers described using *common sense* to make informal judgments about risk. However, this can create a potential illusion that common sense is enough when making informal judgments about risk, as common sense for one person may not be common nor make sense to another.

That is not to say that common sense should be ignored – it can be drawn on to guide both approaches to risk; to make decisions and to challenge assumptions. However, by misinterpreting informal risk as common sense, there is potential to undervalue what it takes to do it well. Being able to scan the environment and identify threat and opportunity while testing assumptions about decisions and impact takes more than common sense. It also distances informal risk, and can even create barriers between those with a formal risk approach who, without acceptable evidence, may see common sense as an untrustworthy and unmanageable source of information for mapping, monitoring risk and accountability.

Informal risk relies on the ability to recognise elements of chance, to evaluate and test assumptions while curating credible information from a variety of sources. It is important to pay attention to multiple biases and attempt to disconfirm what we perceive while taking time to evaluate the consequences of decisions – especially when making decisions using unobservable specialised knowledge or intuition. This is supported by Janney and Dess (2006) who suggest that there is an illusion of greater risk-taking by entrepreneurs because observers cannot discern the specialised knowledge that individuals draw from when assessing and acting upon opportunities.

"You need common sense which means it's helpful that, even with complexity it is possible to articulate and understand what you mean with risk. You don't have to look after too-sophisticated solutions. So that is a big advantage."

"So people's general common sense about what needs to be done, sometimes, because it doesn't fit within that risk management framework; people don't feel confident enough to do the right thing."

"So I think it's that intuitive where you're picking things up and putting them together and making the connection very quickly in your market rather than just bringing out a risk register once every couple of months."

## Our multiple biases

From the literature, we have drawn out several things to consider when taking an informal risk approach. One is being consciously aware of the source of information we use to guide our judgments. This of course is true of a formal approach to risk but here, the information may be less concrete. Studies [33] have shown that receiving *more* information about a risk scenario can alter our perception of the risk associated with the situation. If the additional information received is diagnostic, in that it agrees with the initial estimate by an individual, our revised estimate may be more extreme – this is the concentration effect. The *dilution effect* occurs where the information received is *non-diagnostic* – either irrelevant or contradictory, which causes the estimate to become less extreme. Taken in conjunction with the confirmation bias, when people selectively seek and pay attention to information which conforms to their original estimates [22, 24, 31], we tend to selectively seek and absorb additional information which agrees with our initial estimate. It would seem that, if not done carefully and objectively, seeking further information may only confirm what you already thought.

There is further evidence which suggests that we should be critically aware of our judgment: those with a negative view of a risk option will be more convinced by seemingly non-partisan information which provides balance by addressing both positive and negative consequences [3]. Trust also induces us to lower our risk estimates [4, 21, 24], but where two trustworthy sources give conflicting information, risk estimates are heightened [4, 21]. And in terms of networking, if the person conveying the information is, or is perceived to be, attractive, socially powerful due to wealth, or has superior knowledge or trustworthiness, then their communication will be better received, especially as we are most receptive to face-to-face and spoken communication, and least receptive to plain text [4, 22].

When we base our judgement on experience, we may have a false sense of certainty as we expect others to behave in a certain, previously experienced, way, or for situations to play out according to a certain pattern. We tend to be quick to draw conclusions about the likelihood and magnitude of negative consequences from inadequate evidence [32]; and so, having reached these conclusions, can be *overconfident* in our estimations [14, 20, 24] and slow to revise those estimations as the situation changes [23]. When we do revise the estimations, we do not revise them to a sufficient degree, creating lag effects [23]. There is also an *optimistic bias* [4, 14, 18, 24, 29, 31] where we tend to *underestimate* the likelihood and magnitude of negative consequences, displaying a belief that *"the future will be great, especially for me"* [31]. A further example is the fundamental attribution error [7, 13, 28, 37] where we believe we

are more competent than the average individual and are therefore less vulnerable to those negative consequences which result, in part, from human error. However, while it is true that managerial risk-taking involves more intelligent decision-making than does gambling, for example, ultimately risk situations will always contain elements of chance outside of our control.

## Conclusions and implications for managers

### Conclusion

There are potential illusions present for both formal and informal approaches to risk. With formal risk, the illusion is that risk has been controlled for – and that someone somewhere must have thought about it. With informal risk, there can be an illusion for people who describe it as common sense; common sense for one person may not be common nor make sense to another. Also, this can undermine what it takes to do it well, with little attention to bias and assumption.

### Implications

- **Look for illusion.** There can be illusions in both formal and informal approaches to risk, which may be embedded in your approach.
- **Seek balance.** Having aspects of both formal and informal approaches when thinking about and dealing with risk, as appropriate, can provide a balance to moderate the shortcomings of each.

# WORKING WITH PRINCIPLES

Another important part of the way managers think about and deal with risk relates to the principles they use to guide them, including, but not limited to, integrity, values or 'good intention'. We found that, in general, it was important for managers to hold to their principles as these provide guidance and structure as well as a frame to work within. Where possible, people worked with their own principles together with those of their organisation when thinking about and working with risk. For some, working in line with principles allowed them to make decisions in an almost binary way, simplifying complex decisions and providing a rationale for others. This was not necessarily so that others would like the decisions made, but that they would be able to understand them. Principles also enabled managers to be responsible and take ownership of risk, providing salience to set standards for themselves and to help others work with risk themselves. Principles were also used to create a logic that is difficult to argue against, to defend decisions with 'Who's going to deny you that as a concept?' or 'Who would argue against that?'

"With risk if it's done with the best intention, really well thought through with all the right values and integrity and information, you can't do any better than that."

"Purely because I believe as a professional you are required to always have the highest integrity, special integrity and again, being able to, almost in every situation you deal with, apply the 'blush test', I call it, so you make sure that everything you do is highly ethical. But equally it has to be commercial and being able to balance the two I believe is the highest challenge really in anyone's professional life."

"There are two sets of values, there's, there are the organisation's values and there are my own values. And I won't knowingly compromise either of them. And so, I would hope, I mean that isn't so that I can sleep easier at night, it's you know, I hope that that means that my decisions are predictable and understandable because they're based on the organisation's values and they are based on my values. It doesn't mean that everybody likes my decisions, but they at least have a chance of understanding why I made them... Because my personal values are very easy; they are about integrity and equality of opportunity."

"The thing is, living and breathing it on a daily basis – we all read books but how do we get those principles into the way we behave so it's sort of innate? So what I'd say is, it's not second nature to people, but everybody gets how important it is that people own risk. Who's going to deny you that as a concept?"

## Principles and formal risk

Managers described feeling challenged when formal risk did not fit with their own personal principles – there was an element of personal conflict when the 'unacceptable becomes acceptable'. Several people working with formal risk found it difficult when others accepted flaws in design and delegated their own responsibility to a central process which seemed to ignore decent principles. They also found it difficult when the process was not (or could not) be challenged. It was important for them to be able to draw people's attention to incidents that would be unacceptable anywhere else.

There was also a challenge for managers when behaviours stemming from formal risk

unintentionally led to consequences which conflicted with their principles. A simple and common example is when targets are set as part of regulation; protocols are designed in response to those targets, but in practice the protocol conflicts directly with an individual's duty of care for a customer or patient. The difficulty is – even if an individual's principles are right, there is the counter-argument that regulations must be met. Similarly, there were times when organisational principles were cited to create and uphold rigid rules which were then difficult to work with. In these instances, the binary nature of the rule meant there was little room to accommodate everyday decisions, and the principle underpinning it made it difficult to challenge.

"My example of that would be that when I first went back to work in the NHS I started to notice things that were just not acceptable to me; as a human being, let alone a professional. And when I would challenge people about it they would say to me, 'But there isn't any money'. And I would say, 'This is an essential piece of equipment, or this is an essential part of care; you have to have money for it'."

"For me, I work to core values and principles and then the rest will come, and I think I've got those over. It's been interesting for me because, when I started off saying, well, you've got risk management, financial risk management, you've got managing potential future events, dependency, stuff like that. But at the end of the day, the principles are the same no matter what the topic is - the principles are the same."

"They're the constant paradoxes that people face every day in the healthcare system. Everybody passionately wants to provide high-quality safe care and yet there are so many constraints around meeting targets and constraints around not having the financial envelope that's required to deliver that high-quality care. So it's a vicious circle - it's like a hamster wheel. We're running round on that hamster wheel and because we're so busy running around on the hamster wheel trying to mitigate risk, we're not doing the investment in the people and the systems to make sure they work well to mitigate risk long-term."

"In the banking sector, success looked too often like the share price, and market share and turnover not customer retention, brand loyalty, good margins; staff who are serving their customers rather than selling to them."

## Principles and informal risk

For those who spoke in terms of informal risk, their own principles such as ethics and integrity are an important part of their decision-making. However, without an agreed process to capture rationale, transparency of principles or a high degree of trust, informal risk can be viewed by others as self-interested. Individuals who were able to explicitly draw on principles to support their rationale were able to provide clarity for others. A further challenge when using principles for informal risk was that the principles used to guide decisions are not necessarily consistent across an organisation. Without explicit rationale, what might seem like a principles-based informal risk to one person can seem an unpredictable approach to risk by others. Even agreed shared principles can be misinterpreted and can appear in conflict with each other; for example, good customer service can mean providing a good price for a customer that is not sustainable for the organisation to meet good customer service

in the long term. This, of course, may also be the case with formal risk, but with informal risk, there is less scope to capture and learn from the process.

A further challenge when using principles to support informal risk can be related back to the illusion of risk and the ability to test assumptions and biases within our own decisions and those of others. Creating a binary framework may reduce some of the anxiety and complexity; but does it provide an honest and useful basis to think about and deal with risk?

"If you are rewarded on just breaking even, it creates a dealership environment versus the leadership environment and I think that's really key. I think my biggest thing I would expect to come of this research overall, is being able to change that culture overall as organisations, as a nation - that you get rewarded for thinking of all your stakeholders and not just the P&L-driven."

"It's the fact that you often have intuitively quick solutions because you're lazy and not thinking about which leads you to want not to take a risk, or wanting to do something to avoid it; because it's a safe thing to do."

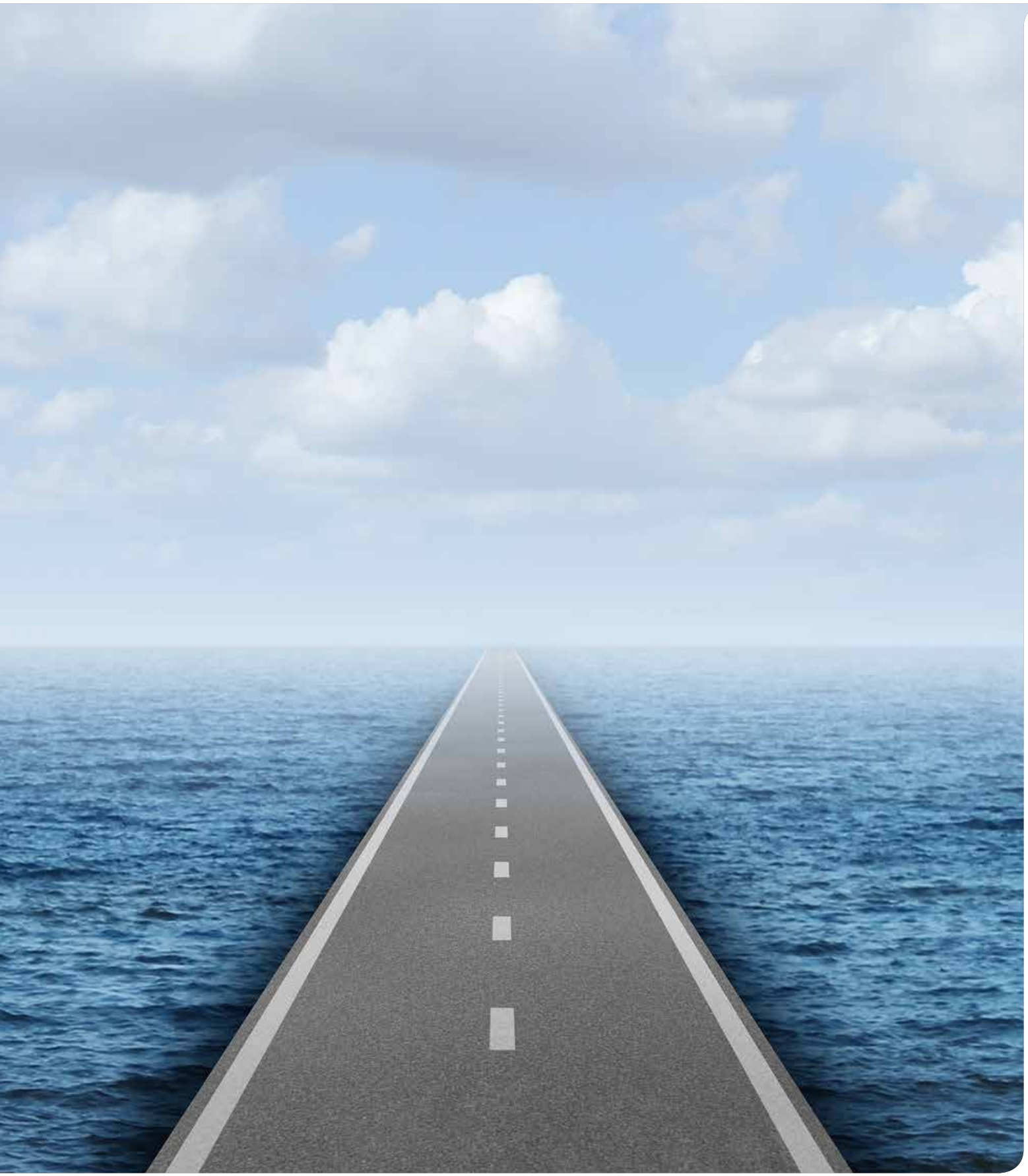
# Conclusions and implications for managers

## Conclusion

The principles that individuals hold have a bearing on how managers deal with risk, in design, decisions and outcomes. Principles can include, but are not limited to, integrity, values or 'good intention'. A formal approach to risk can stifle attention to principles whereas an informal approach, while enhanced by shared principles, requires transparency to understand decisions based on them.

## Implications

- **Consider how principles impact on risk.** Look at the extent to which your own principles or organisational principles impact on your assessment of risk, the resulting decisions that you make. Is the level of riskiness mitigated by the 'rightness' of the decision?
- **Check that formal approaches make allowance for important principles.** While formal approaches to risk are often created with the best intentions, managers need to check and adjust for the 'unintended consequences' of decisions which conflict with important principles



# WHO IS ACCOUNTABLE?

Accountability appeared to play a major part of thinking about and dealing with risk. Like risk, accountability is a complex concept with multiple dimensions related to monitoring and triggering action. For example, one dimension is the information aspect such as being able to inform others of 'what has been done and what will be done'; a second dimension is the explanatory aspect of being able to form judgements and give reason to support activity and decisions; a further dimension is one of enforcement where good performance is rewarded and poor performance is punished. While this list is not exhaustive, it does provide a simple overview of the complexity of accountability. In the interviews, when managers talked about accountability, these dimensions were drawn on in two ways. We have labelled these *individual accountability* and *collective accountability.*

"If people know you're looking at that and they'll be judged by it, that is the standard classical way of making people accountable, which is by threatening them with some nasty outcome."

"Fundamentally you've got to be able to measure performance against objective. So the number of times I've heard that objectives must be measurable. And that's fine, I'm fine with that. But at the end of the day, how do we help people help themselves? I'd hate to give someone a KPI and then hang them out to dry. So one of the key KPIs with my practice team is utilisation and margin. So I can say to a guy, you need to get your margin up, you need to get more utilised, but then how can I motivate and instil in them the importance of that, and how can I help them achieve that?"

## Individual accountability

Individual accountability is often, but not only, used when working with high-stake outcomes. It is used as a mechanism to ensure that essential parts of a process are administered without gaps and with transparency and correctness. This type of accountability draws on all three dimensions listed above: providing *information* about the activities being undertaken; an *explanatory* dimension to provide rationale for decision making, and *enforcement* to act as levers and incentives. There is perhaps a greater focus on enforcement as importantly, this type of accountability cannot be shared (Smith and Erwin) and so an individual is ultimately answerable for their activity.

## Collective accountability

This type of accountability draws more on the first and second dimensions (information and explanatory) and much less on the third dimension of enforcement, as it allows people to work with risk in more meaningful and complex ways, allowing groups of people to identify and mitigate risk while leveraging their own individual authority where possible. Collective accountability takes a relational approach as trust and communication play a vital role in drawing out what is at stake and what influences outcomes. There is a need to develop capability to identify risk in more instinctive, subjective ways and then to be able to communicate regularly so that others in the collective are able to recognise and make sense of it in light of many other factors. Importantly there can be freedom to fail and this is generally distributed across the collective.

Whichever way we look at accountability, it requires contribution to a system of communication, capturing critical information with potential to influence both good and bad outcomes. One of the challenges is finding the right balance between individual and collective accountability to meet the needs of the type of risk, the organisation and the people thinking about and working with risk.

"I think one of the major things would be to concentrate on substance versus internal controls. A lot of time, one spends time to cover his arse internally from internal inspections. A lot of decision-making has to do with 'How will I be rated by our internal controls when they come to check risk engagements'."

## Accountability and formal risk

In terms of formal risk, individual accountability is used as a control to ensure a process stays on track. By having named individuals accountable for different parts of the process, the parts combine to create a whole. However, this is less useful when considering risk outside of high-stake outcomes when people may be reluctant to be held accountable for decisions and actions for which there is little salience, insufficient time to consider or where there are a high number of dependencies affecting the outcomes. While some people may prefer the clearly defined process, Sitkin and Pablo (1992) suggest that process-oriented individuals consider their commitments fulfilled as long as they adhere to appropriate process, and have less personal accountability for the outcomes of the process.

Individual accountability can also create an environment where people find ways to avoid or circumvent the process to avoid negative personal risk consequences, such as shame, blame or legal action; or wing it because time is tight or they don't have the data to back it up. Information gathered is therefore incomplete and so the parts don't combine to create a whole, leaving gaps in the process. The challenge for managers is creating an environment within the constraints of formal risk for individuals to proactively think about other outcomes of risk outside of the controls, and not just to react to high-stake outcomes, the assessment process itself or the threat of negative personal consequences as a result of enforcement. The assessment framework might need to be challenged to accommodate information that does not have data or evidence to defend it; to capture information and observations beyond the tangible and measurable.

It is also important to develop the capability of individuals and empowering people to identify and truthfully communicate potential risks and opportunities as painlessly as possible. They must be vigilant to the actual dangers related to risk itself and not be fearful of the consequences related to the process (such as blame) or to be accountable for outcomes in uncertain situations which are beyond their control.

"Making explicit what you're dealing with, but also accountability. How do you engender accountability in an organisation? How do you hold people responsible for what they've said they're going to do? And actually there are consequences. I'm not saying you get your head chopped off or you get sacked but actually – I've come from a culture that it's very rare if I ask for something to be done that it doesn't get done. Or if it's not going to get done I'm told that it's not going to get done. I'll know! Whereas here, the likelihood is, I have to work on the assumption that nothing I ask to be done will be done - I have to remember to chase it. To me, that's a risk to the organisation."

"I think what good would look like and certainly feel like it would be a culture of accountability, willingness to be counted, but also willingness to challenge constructively which would be the opposite of a blame culture, which is, kind of, very, static in its nature. The mistakes that occur in a blame culture usually stem from assumptions that are never clarified and things go wrong because people don't dare to challenge."

"The things that I focus on are making sure that people have clearer accountability for their risk responsibilities, and so that is outside the risk function. I think that is really important that the concept of risk ownership within the business is vital."

"Well, I guess, there's, in one's personal life is an aspect of that, which means that you don't do a proper, thorough due diligence or anything. But maybe it would be a bit of a sad life if you did, wouldn't it? If you had completely got the emotion out of what you wanted to do, just to say that 'What I really want to do in life is have the most robust – personal risk management system' [laughing]. It probably wouldn't be worth living."

"We have a risk register which goes on for pages and pages and pages which has all sorts of risks written down on it; people accountable for it or departments that are accountable for each of the risks. Evaluation of what that risk – how serious a risk it would be, and a column for mitigation actions. And we do an exercise every year of going through this, tweaking it, modifying it, updating it, and occasionally adding things, discussing it. Updating the paperwork and then popping it back in a filing cabinet."

## Accountability and informal risk

With regard to *informal* risk, managers often described what we have labelled *collective accountability*, empowering the collective within a team or the organisation to recognise risk and opportunity at all levels; top down and bottom up. Here, each person is encouraged to be responsible and have authority to contribute to conversations about their perception of risk, in whatever form it takes, with the aim that any and all information might be important and could potentially influence decisions and outcomes.

The main challenge with collective accountability is that, without enforcement, it requires a reliance on an individual's own interest to scan the horizon for risk; there are few levers to *make* people responsible or even interested. This can be frustrating when things are missed; perhaps not the first time but certainly the second as while a collective is capable of thinking about and dealing with risk in broad ways, an informal risk approach does not tangibly capture the process for learning and development. Without individual accountability, there is less control over the process of decision-making and action. Not necessarily a challenge in itself, but there can be when there is a mismatch in expectations about what constitutes accountability.

A further challenge is transitioning people from an individual accountability mindset where an individual may be fearful of process outcomes and despite being encouraged towards more open and relational collective accountability, old habits die hard. Therefore, extra attention needs to be given to both explicit and implicit understanding of accountability within the organisation.

Without the controls within a process to make people accountable, levers may be created through a relational approach to encourage others to take their own responsibility to assess risk in their situation. Not necessarily as part of a formal risk approach but also so that actions are considered in the moment, as part of an informal approach. In this way individuals are able to make conscious decisions related to risk which they can draw upon afterwards.

"I think people don't necessarily realise what their own power is, so you know, if you look at the manufacturing environment for example, if we could get employees to speak up more, based on their significant experience and knowledge of their own working environment, if they identify potential safety risks for example, that would have a huge impact."

"People don't own their problems if they feel the manager's coming down, talk about their problems then take it away - they don't own it themselves. And they are the best people; they're in the best position to mitigate risk, not management. Management need to make people accountable for mitigating risk, and help them to understand their accountability, and get an aggregation of that up to the top. At the end of the day, the individuals who actually work with the risk have got to be accountable for mitigating."

"If you can get the culture that the plan is there for us to be able to acknowledge where we diverted. And if we all sit in a room and agree that that's the right thing to do, to divert from the plan and to re-baseline it – but it's not there to beat people up – it's everyone being accountable right down to the bottom level, being clear what they're managing."

## Finding a balance

It should be noted that there was not a clear delineation of the *type of accountability* with the *type of risk*; both types of risk require a balance of both types of accountability and need to be fit for purpose; too much or too little of one type can lead to challenges. From the literature, it can be seen that making an individual accountable for their estimates is widely considered to have a positive effect on risk awareness, as it has been shown to reduce bias in the selecting and processing of information and eliminates *overconfidence bias*, with accountable individuals giving more realistic estimates of the accuracy of their estimations (Tetlock and Boettger, 1989). However, certain negative effects of accountability have also been identified. Tetlock and Boettger also found that accountability exacerbates the *dilution effect,* whereby adding irrelevant detail to the information presented to a decision-maker both brings their estimation closer to the mean and reduces confidence in their estimations. Accountable individuals are also more likely to over-interpret irrelevant information in an attempt to use it in their decision-making. Kahneman and Lovallo (1993) found that increased accountability, in the form of more frequent progress reports, exacerbates the phenomenon of *timid choices* as individuals are reluctant to report a loss even if they believe it will lead to later gains. Tetlock and Boettger also found that *simulated accountability* among individuals led them to make more conservative estimates of risk and have less confidence in those estimates.

There is no one right way of getting the balance between individual and collective accountability right; getting the understanding and communication right is a good start, and from there, providing the environment which develops the right behaviours is a good next step, to create an environment that is vigilant of the dangers and the downside of opportunity and not fearful of the consequences of a process.

"The tools that we have in terms of measurement and planning are so often used as a means to berate and beat people up which means all the behaviours are wrong. So when we get back to this behaviour thing, it's like, I've got all these tools, how do I use them to get the right behaviours?"

"They always used to say: 'You'll not get fired for a lack of success – you'll get fired for a lack of control'. So the key thing on all the key P&L positions, you had to have proper control. You had to have controls around predictability. Now, insofar as conducting business - it's unpredictable, that means people adopt different strategies for being predictable. They, for instance, time-shift results, or they manage down their plan so they can achieve their plan. Or they simply avoid situations where they know they can't deliver predictable results. But they all said you could have a business result that's bad, but if you were in control, you'll be fine because you could defend it."

"One of the problems with business development, especially during recessionary times which we now are in, is that you have to be – every risk you take has to pay off, and that's very, very challenging. And it actually limits the number of risks you will take as an organisation or as an individual. So you lose that freedom to think, wow! Just think what would happen if we painted everything pink. It would be amazing. Let's do it, let's just do it. So you actually pull back from that and say, well, actually, green and yellow is really where we're at. Let's stick with it."

## Conclusions and implications for managers

### Conclusion

Accountability is an essential part of any approach to risk. Individual accountability provides a mechanism to ensure that essential parts of a process are administered without gaps and with transparency and correctness. However, individual accountability can create behaviours which lead to individuals to protect themselves before managing risk. Collective accountability takes a relational approach as trust and communication play a vital role to draw out what is at stake and what influences outcomes, as failure is generally distributed across the collective. However collective accountability requires personal responsibility to scan the environment. Collective accountability alongside individual accountability when working with risk provides an opportunity for greater sharing of risk perceptions, and better-informed decision-making as a result..

### Implications

- **Watch out for accountability that inhibits effective risk approaches.** Avoid a management approach which effectively penalises individuals and limits discussion of possible failure; this can restrict important conversations about risk and limit opportunities to surface informal risk concerns.
- **Consider ways to take advantage of individual and collective accountability.** Develop an effective approach to handling risk which capitalises on both individual and collective accountability.

# RISK IN CHANGE: RISK IN NOT CHANGING

From the interviews, risk, change and progress are closely linked. However, within the scope of this research, the exact nature of the relationship is not possible to distinguish. Yet it is still considered an important area to contemplate for managers thinking about and dealing with risk. For simplicity, the concept of change here is broad and spans small changes at an individual level through to complex change at an organisational level – and includes anything that is different, or has the potential to be different, from how it has been. Progress here is advancement through learning, development and innovation.

Some managers spoke of the challenge of working with others who are reluctant to use new ways of thinking and working because they view change as a risk in itself. Several of the managers were in the position to challenge assumptions and help others consider how this type of thinking might be limiting progress and shake off some of the fear and suspicion surrounding change. In fact, for these managers, the greater risk was not getting people to recognise that change and risk are not synonymous and that there are risks associated with not changing at all. For them, there was sense that everyone has a responsibility to make progress – to improve quality and productivity and ultimately keep the organisation alive.

Other managers were not in a position to influence and described feeling frustrated as a result.

"People feel reluctant to say 'We'll join your platform' or 'We'll accept your standards', or whatever, because they think it's risky because it's change."

"I think the main thing is just not to think anything new is risky and anything we already do is not. That's the predominant mind-set that I hear and actually that stops, you know, from my perspective of innovation; that stops us moving forward with some potentially great ideas which could make a big difference."

"Within the tobacco industry we'll say that everything we do that is different from what we did yesterday has a certain risk to it. And I guess that goes across the organisation because everybody thinks that if we do something new that comes with a certain risk and we are of course very cautious for that."

"They think that change is risk and they want to avoid the change. So they don't believe that we have the responsibility to make progress. I happen to think, you know, we have a duty to make progress and you can't make progress without change. So there is change, so there is risk associated with change; but sometimes the risk associated with change is no greater than the risk of not changing at all."

"Change has to happen at every level. Culture, infrastructure, structure, leadership behaviour, processes are still in view. And we now have a leader who is very vocal. There are several leadership voices now that are spearheading this change, so it's seen less as a risk and now it seems a way of sustaining the organisation for the future and future-proofing it."

## One size cannot fit all

A further strand of the change, progress and risk link is the impact of the process itself – specifically how it can have a negative impact and constrain the progress of the business. This played out in several ways – one was a one-size-fits-all approach, where the processes required of one part of the business are practised across all parts. Here, a formal risk approach necessary for compliance and governance, or for more structured risk management frameworks, created a rigid frame for other areas which might benefit from a more informal approach.

If purposefully considered, there was a consistency in understanding and flexibility within the process. However, several of the people we spoke to mentioned the consequences of a one-size-fits-all approach developing in spite of the needs of the business, with little consideration beyond that it seemed to work. The areas of the business that are less constrained by regulation (and these will be different across different sectors and industries) can become stifled by these processes as they can impact on speed by slowing down the decision-making process. It can also impact on creativity and innovation.

"The environment and the structures can be so stifling that every ounce of creativity is wrung out of you".

"The compliance mind-set can become very pervasive into other areas of the operation which do not need to be so heavily regulated, so for example, business development or innovation can become constrained by a mind-set of regulation, which is something that we are very mindful of and constantly try to work with."

"Is it exemplary about doing it in a structured way that absolutely minimises health and safety to the detriment of other things? If you take the oil and gas industry, innovation cannot happen in large companies because of process and attitude to risk and therefore, development of new products, R&D is stifled, creativity is stifled, because of attitude to risk."

"But now we are starting to form all these committees like 'General Compliance Committee', 'Cross-functional Steering Committee' and all this, however their names be decided. This is getting a little bit in the way, where people feel it's losing a certain speed; it slows down the decision-making process."

## What does success look like?

There is no simple, single formula to calculate a neat ratio of process to progress as the balance between the two depends on the needs of the business and the needs of the people within the business. It also depends on what success looks like; and who is measuring it. Change and risk are not synonymous, especially when both process and progress are maximised. This is not always the case as some organisations take a one-size-fits-all approach, or individuals use process to justify decisions while others take a short-term approach to focus on progress, ignoring the benefits of process.

"In each individual sector, the risk approach will depend on the nature of the sector. Some sectors are very conservative, and change slowly. But the world we're living in, the impact of technology, the impacts of expectations of who we serve, clients or customers, and the global nature of how things can be invented in one country and be available in any other country, very quickly means that being quick-witted is important. But again, the importance about risk is not knee-jerking with every change, fad, or innovation, but taking a considered long-term view and a clear 'What does success look like?'"

## Process getting in the way of progress

Another challenge was that the process takes people away from dealing with the change at hand; where the focus is more on analysis and evidence and seemingly less on the impact of risk itself, therefore creating further risk when decisions are delayed. Individuals can then use the process to confirm their certainty or to justify their uncertainty as each part of the process can be held as a reasonable explanation why action has or hasn't been taken. This is perhaps as much about personal preference as it is the process itself but further research is needed to inform the relationship between cause and effect (does process inform the response or does the response inform the process?).

"I think one of the hazards of being analytical is that you can spend too long and get too embroiled in analysis and, 'Oh, wait a minute, wouldn't it be nice to just do another survey to really understand the price points on...?' It may not be a market opportunity factor that is constraining you but perhaps an internal factor."

"We had a budget of £100,000 which I find minimal; a proposal, it was signed off. Eighteen months later we don't have the development of a website because it's part of a risk register with a risk committee, and an advisory group overseeing it, overseeing the tender. And this is a company with a turnover of less than £2.5 million, and you cannot deliver a website in eighteen months because of attitude to risk – 'Oh it might go wrong', 'We've got to make sure it's right', 'What about the right supplier', 'What about, what about, what about ...' and therefore you don't have delivery and by that time most people have lost interest in it."

"And for me, you can have all the sophisticated formal risks but if it's not making any difference and we're not learning from them then what's the point? What's the point? It's another abstraction from dealing with the really difficult part of providing safe, quality care. You've done the formal risk, you've probably spent hours doing it, making it look in the proper format, in the proper font, in the proper text, and probably most people would put their hand on their heart and say, 'I've done the best I possibly can', but it's probably still not going to make much of a difference."

## A short-term focus: Lost learning

In contrast, there were several cases where progress was negatively impacted when there was a short-term focus on decision and action which ignored the benefits of a process. These cases include making changes which had little consideration for the people implementing or affected by these decisions. The people we spoke to generally recognised that engaging others in a project helped facilitate the process.

"People churn and try to make it fit and don't really like it because they feel it's been 'done unto them' rather than them being involved".

There was also the benefit of the organisation using information to learn from the process, beyond those directly involved. Using what has gone before can provide a further point of reference for making decisions concerning risk and opportunity; capturing and evaluating this information forms part of this process. Implementing change without maximising process and progress is perhaps why people view change as risk – because it is risky; especially when it is perceived to be linked to personal risks such as role uncertainty or redundancy.

"What we've learnt around developing new ways of working is the more testing you can do up front, the better, because you get it right. And it might take you three months to do that but when you implement it's the right thing; it works well; people have been engaged in the testing so they're more accepting of it than if you bring a new way of working. There's the difference between this need to implement quickly which actually, mostly, doesn't go well, and taking more time to test and implement more slowly and then it's much more seamless, but, you know, the NHS tends to work on short-termism."

"There are organisations that are not swayed by short-termism. There are organisations that are keen to do what they've always done and the status quo rather than looking to be innovative or exciting, because innovative and exciting means taking more risk and they may or may not manage it well. Conversely, I've worked in organisations where they are more prepared to do something different because that's how you progress, by doing things differently, not doing the same things over and over again. So, ultimately, what succeeds is getting the right balance between those two elements and approaches. And, having a consistency of approach rather than vacillating from one to the other and therefore confusing everyone in the organisation."

## Conclusions and implications for managers

### Conclusion

A big challenge facing managers is that people perceive change as risk. Formal approaches to risk can be bound by process while informal approaches to risk can be free to make progress. However, progress and process need to be considered together, as taking a 'one-size-fits-all' to process can get in the way of making progress, whereas a short-term focus on progress can undermine communication and limit learning. Either way, managers need to be aware there is risk in not changing.

### Implications

- **Pay attention to the balance of process and progress to unlock beneficial change.** Addressing risk and change with a balance of process and progress provides both risk approaches with a valuable role to play. Formal approaches to risk capture information to communicate and learn, while informal approaches develop trust in individual intuition and group process to openly discuss and evaluate risks which can be the key to dislodging 'stuck' organisational behaviour.
- **Evaluate the risks of not changing.** Formal risk approaches combined with an understanding of market forces and underlying trends, together with an informal understanding of risk, provide balance against the perceived risk of change.

# LEADERS: RESPONSIBLE FOR THE FRAME OF RISK

Leadership was talked about in several ways; in terms of individual leaders, as leadership teams and board level leadership, and in relation to both formal risk and informal risk. Whichever way leadership was discussed, leaders were seen as a key part of the way managers think about and deal with risk. Leaders were seen as responsible for providing rationale, shaping behaviour and ultimately, for the decisions that are made within the organisation.

Of particular importance was the sense that leaders should be *held* responsible and *feel* responsible for the management of risk, and importantly, provide the frame for others to understand and act. Challenges occurred when leaders did not did appear to take this responsibility, or undermined efforts of others managing risk, or by creating confusion through inconsistency. These inconsistencies were seen when leaders did not articulate an appropriate frame of risk for the context or when they said one thing and did another. Further challenge occurred when the rationale provided did not make sense to managers.

"There is a stratum of the business, of senior business leaders and those reporting into senior business leaders, who understand that risk and risk management will always be relative to a commercial reality and achievement of objectives. Risk management is nothing mystical; it doesn't exist for itself or in itself. It is relative to something you want to achieve, or something you want to avoid, whatever the case may be. I wouldn't say the entire organisation, I would say senior leaders and their direct reports; people whose neck is on the line."

"Our principle is that risk management is an important part of what we do as a leadership team. The principle is that it's not a chore and it's not something that we don't enjoy doing. It's part of being a senior leader within the organisation."

## Leadership and reporting – a mismatch in expectation

Reporting risk to a board of senior leaders was challenging when there was a mismatch in expectations between the people on the board and the people reporting. The Financial Reporting Council provides a UK Corporate Governance Code (2012) which states that *"The board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems"* (p. 7). The Turnbull Report (2005) reiterates the view that the board has responsibility to emphasise the importance of regular and systematic assessment of the risks as well as making sure risk management and internal control systems are embedded within business processes. So while responsibility for formal risk can be distributed to audit or risk committees, the overall responsibility still sits with the board. How they choose to act on this responsibility influenced how the people we spoke to talked about and dealt with risk.

The quantity of reporting is dependent on what the board and the people reporting to them agree to. Some managers described a rigorous approach to reporting, using a variety of aggregation committees to report to a board that wanted to be made aware of every incident outside of 'norms' to monitor incidents of non-compliance throughout the organisation.

This was to take action to alleviate or mitigate a risk but also to be aware of systemic issues or patterns. In contrast, others spoke about only needing to provide concise and simple reports to convey the headline findings to their board; mostly, people described something in between.

"So incidents, wherever they go in the organisation, are reported right up to board level, so any minor incident which is outside of the 'norms' that we set down in terms of what is acceptable, gets reported."

"When we are presenting information to the board they understand it so it's got to be succinct and also simple to understand so that you're not, you know, the real issues are discussed but not hidden amongst lots of information; so relatively short, concise reports."

However, for many of the managers we spoke to, the challenge was not so much the quantity but rather quality of reporting, particularly the challenge of getting senior leaders and board members to hear bad news. One manager summed it up well when he talked about policy areas: "*People don't like to be told their baby's ugly*". The board, while responsible for risk, can delegate responsibility to others so they are removed from the stories which create noise with little impact. However, when senior leaders find it uncomfortable to hear negative stories, it creates an environment where bad news is played down and even avoided, with little scope to challenge. Being prepared to listen to the bad news as well as the good creates an environment for managers to tell it how it is.

"You have to build trust with senior people and you have to make sure that the senior people above those senior people are going to back you every step of the way. Because actually, if you really are going to deal with risk well in an organisation you've got to have the humility and the integrity to allow people to tell you how it really is. Which is really hard to not be defensive. So I get the feeling that if you tell good-news stories then everybody's happy, and people are less happy about the negative stories. So again I found it hard to be heard when I was trying to articulate how bad I thought things were."

"Some people will be more narrow, some people will be broader, but fundamentally the closer you are to the risks the better your understanding of them is, and the challenge is to make sure that you're not too close so you can't see the things that are on the peripheral vision. And the challenge that most boards have is that they're so far away from it that they can't – they find dealing with it rather uncomfortable."

"If you actually go to your CEO of the entity with the regulatory return they need to sign on a month-on-month basis, and they ridicule you to say 'Why did you bring 400 pages into this meeting, did you expect me to wallpaper my wall?' that's what I mean by attitude to risk and taking ownership. Because the final signatory, who has the authority to release that information – do they take that corporate responsibility seriously enough?"

## Leadership everyday

Several of the managers we spoke to said that dealing with risk was an important part of a leader's day-to-day role – in terms of being aware of it, acting on it and influencing others. For these leaders, their role was to influence the culture and build the capability of their organisation to be able to think about and deal with risk. This was considered an ongoing and continual work-in-progress with risk and not something to be attended to out of obligation or in response to a committee or board meeting. The challenge for several individuals was, as a leader, accepting this as the case and recognising the impact of word and deed on the organisation. A leader's actions are noticed and observed as if in a spotlight, which then guide and influence the behaviour of others. Leaders need to be mindfully aware of themselves as leaders – of course this is true of leaders generally and not just in relation to risk.

"It really is the leadership which drives the message home. So again, it really depends I guess on different organisational cultures, but if you think of, again if I can compare and contrast between different businesses I have worked in, you, this is my personal quote, it's something I called 'dealership versus leadership'. And you do have quite a lot of environment where it's a 'deal driven' culture, so it's really almost kind of deal blind; where you just want to close another deal and not consider the holistic picture and how does this fit within bigger corporate strategy?"

"I think it's very difficult to make progress without taking some risk and I think you have to continually ask yourself whether you as the individual leader of an organisation are setting the right tone in terms of the appetite for risk and helping people understand. And what are the circumstances in which it's OK to take more risk than in other circumstances and to try and take a portfolio approach to it, and have some things where you will be very risk averse, and some areas where you'll be continually evaluating whether you've got the balance right. If you get the balance wrong, either you can damage an organisation or you can leave your organisation being left behind by other organisations as they overtake you."

We know from the literature that the risk orientation of a leader will influence the informal risk and behaviour of a group. Leaders within an organisation establish its culture, through both the formulation of normative behaviours and the identification of group members who share the same values as them, either as an attempt to emulate or please the leader (Sitkin & Pablo 1992, Schein, 1990). Where a shift in risk occurs, it is often the individuals with influence who initially advocate a position in the direction of the shift (Clark, 1971). It could be that leaders alter cultural values, or that individuals more in tune with cultural values are better positioned to lead – but in any organisational context, where leaders shape the culture, the leader's personal risk orientation will influence the organisational response to risk.

# Conclusions and implications for managers

## Conclusion

Of particular importance was that managers say leaders should be *held* responsible and *feel* responsible for the management of risk, and importantly, provide the frame for others to understand and act. This was in relation to both formal and informal approaches to risk. Challenges occurred when leaders did not did appear to take this responsibility, or undermined efforts of others managing risk, or by creating confusion through inconsistency. These inconsistencies were seen when leaders did not articulate an appropriate frame of risk for the context or when they said one thing and did another. Being prepared to listen to the bad news as well as the good creates an environment for managers to tell it how it is.

## Implications

- **Discover your leadership approach to risk.** Consider the pros and cons to formal and informal approaches to risk. Articulate a frame of risk which reflects the context of the organisation, makes sense and provides consistency for those working within it.
- **Share the leadership of risk.** Engage and enable individuals across the organisation to feel responsible for scanning the environment, identifying threat and opportunity while testing assumptions about decisions and impact.

# PEOPLE: RISK AS A 'HUMAN ENDEAVOUR'

As already discussed, being able to think about and deal with risk seems to be reliant on having the right information in the system – either captured as part of a *formal risk* approach or considered as part of *informal risk*; and the core of good information rests on the people contributing. Damodaran (2008) reminds us that "*managing risk is a human endeavour, and a risk management system is only as good as the people manning it*" (p. 370).

From the interviews, we found the responsibility of thinking about and dealing with risk went from board level and senior leadership right through to every member of an organisation, each having the potential to make a contribution to risk and opportunity. We discuss the influence of people in terms of ability. We also discuss how communication, and conversations specifically, impact on thinking about and dealing with risk.

## Ability of individuals

Recognising the value of having capable and competent people working with risk was an important aspect for most of the people we spoke to. And as might be expected, capable meant different things to different people working with different types of risk, and so, at this stage, there is no clear and simple categorisation according to sector or industry. However, what was consistent was a high regard for people who are able to consider the implications of risk and importantly, be able to communicate that well – enabling others to think about and deal with risk. Often, the responsibility for risk is given to those with occupational experience, an attention to detail or an appreciation of the controls and processes needed to keep it on track; in effect, risk gets 'taken care' of by someone considered expert. The challenge is, unless that person is able to communicate well and allow themselves and the process to be challenged, 'risk' does not translate to other people in the organisation with less attention to the detail of the controls or processes which appear to slow them down, leading them to feel frustrated and unable to challenge. Some people recruited people for their ability to work with risk while others saw a need to develop this ability by engaging others.

"In some cases, a chaotic environment, with highly capable and competent people, who are spotting for – spotting out for the risks, can sometimes be, paradoxically safer than a very highly controlled and regulated environment."

"The way I manage risk much better is that I recruited a better team and recognised my own weaknesses and, and sort of adopted a leadership position rather than a management position."

"You've chosen them as leaders because of integrity of values, of competency, of intelligence, of reputation. So sometimes we forget why we recruited people, why we've chosen them."

"I do face this quite a lot when you have subject matter experts in your day-to-day dealing, who are very one-dimensional. They do understand the subject they are passionate about and responsible for, but it's really interesting to get them engaged and saying that's OK from X, Y, Z, however have you considered why? And that's when predominantly when it becomes interesting because it really depends on their experience, maturity and understanding and engagement and how interested are they to consider the overall holistic picture rather than just the transactional issue."

## Talking to each other

Communication plays a crucial role in the way that risk is thought about and dealt with. Everybody interviewed said something about the value of having discussions about risk. For some, that meant an opportunity to get people together regularly to make sense of what is happening around them – to identify what is at stake; how they might be affected and what they can do about. Others used frameworks to guide discussions to give consideration to risk throughout the organisation, but where the frameworks themselves did not become a substitution for a proper, open and honest conversation. And for some, the word 'discussion' was used to describe the process of being challenged by others, particularly senior leaders, in response to a presentation about organisational risk. Being able to communicate about risk in any and all of its guises is vital.

There are, of course, challenges attached to this. The first is creating the time and space to have conversations – logistically, this is not always easy. But also, culturally, it can be challenging when conversation is not valued by others in the organisation or when there is little incentive to make the time for them. This was particularly noticeable when people moved between one context and another; having had the experience and benefit of good conversation, it was difficult for them to think about and work with risk without them, and ultimately frustrated their ability to deal with it effectively. Another challenge is the move towards virtual working; while not an issue in itself, it does require attention from people to think and work differently to make the most of the opportunity to communicate about risk.

One thing was clear – for the people thinking about and dealing with the nuts and bolts of risk (both formal and informal), there was a lot of energy for *'really getting some passion into risk'* related to the development, design and implementation of risk management. There was a sense of excitement when matched by others in the organisation – and frustration when it wasn't. Creating successful risk approaches to support and accommodate the particular needs of an organisation requires good communication skills; this is both to engage people to contribute to the collection of data (in whatever form) and to translate what it means to the organisation – otherwise it can create barriers as people feel excluded from the activities of 'experts' or they simply go through the motions to meet minimum requirement.

"The first thing for me is that people take risk seriously. So – some people go through the motions of doing: 'Oh, let's come up with our risks' and everyone goes 'Oh no, not a bloody risk meeting'; but really getting some passion into risk. So it's not a very dull 'Oh, it'll never happen' type discussion. It's a 'We are going to identify what we think our top ten risks are. We're going to monitor these every month and we're going to have a proper talk'. It brings up something maybe that gets something onto your radar that you may not have otherwise done."

Finally, the language of risk. As has been shown, there is much ambiguity about the words used when talking about risk: a noun or a verb? Formal or informal? Individual or collective accountability? Risk management as a process or a skill? It is perhaps ambitious to imagine one truly-shared language across all contexts, sectors and industries, but a language shared with most people in an organisation is a start.

"I think the Risk Register or Boston Matrix of Risk is about having the right conversation; just moving a bubble around between impact and probability of occurrence. I think just the act of saying, well, should it be in that quadrant or that quadrant? This is in itself the value of that diagram. I'd like to facilitate meetings about risk. It's a great opportunity to get people to think differently about things. And quite often you may not mitigate the risk – it may not be about mitigating the risk so much but about, well, should we be having people focusing on certain areas? You get a wider conversation than just the risk itself."

"It's got to be on your agenda. Don't put your head in the sand. You probably know what the risks are. Because companies tend to be populated with pretty bright people who know about their businesses. The quality or the value is in the thinking and the conversation rather than the spreadsheet or the tool."

"Does your risk register provoke a discussion that would not otherwise happen? And does that make you sensitive to events? Not running to the hills or being noisy, but in a nice, controlled way; do we want to worry about that?"

"'Better' means actually talking about all those non-tangibles. It's not about the numbers on the spreadsheet; it's everything else that's happening in a global economy. So 'better' is organisations not thinking themselves as SMEs but actually connected to a much bigger picture, a much bigger connection to the whole ecosystem. And I think that's a capability issue. I'm not quite sure what that looks like but I think that's what better looks like."

"If you are going to influence, if you are going to help them get a richer understanding of how things may play out; you need to be able to speak their language. You cannot impose a code, if you like; a way of speaking that does not make sense to them. You need to be relevant to the business, and then you can have a tremendous amount of fun and influence."

## Conclusions and implications for managers

### Conclusion

Consistently, there was a high regard for people who are able to consider the implications of risk and importantly, are able to communicate that well, engaging and enabling others to think about and work with risk day-to-day. However, risk is often viewed as the responsibility of those with occupational experience, an attention to detail or an appreciation of the controls and processes needed to keep it on track; in effect, risk gets 'taken care' of by someone considered expert. However, unless that person is able to communicate well, 'risk' does not translate to other people. Distributing expertise by engaging and enabling individuals to take responsibility for thinking and working beyond minimum requirement provides greater scope for them to participate meaningfully.

### Implications

- **Engage and enable people to take responsibility for risk**. Challenge assumptions that risk is being managed separately by experts. The opportunity to participate meaningfully comes from ownership of risk.
- **Encourage conversations about risk**. Allow for contribution from across the organisation by providing time and space for people to think and talk about risk. Develop understanding and a shared language of risk, both within your own context and beyond, to improve quality of information and communication. In this way, both formal and informal approaches can contribute to each other.

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