Transitioning Leadership and Risk Management*

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Transitioning leadership suggests a process of adjustment, adaptation, transformation or metamorphosis from one condition, situation or state to another, depending upon the extent of the internal or external change required to continue to operate and cope. The process involves risk and its management, and the degree and nature of this risk can depend upon the extent and type of changes required. Responsible leaders consider and balance the benefits, costs, timescales and risks involved in achieving their aspirations, goals and visions.

In many sectors, the contemporary business environment is characterised by discontinuity, innovation and uncertainty. The implications and consequences of disruptive technologies and new business models are not always clear. The leadership challenge is sometimes to move from a situation about which much is known into an unknown future at a time when few assumptions can be made with any confidence. Transition also challenge risk managers in relation to their role, perspective, approaches and contribution. The risk management community itself may need to go through a process of transition or transformation in order to remain relevant and add more value.

Transition as a Normal Condition

For some, transition may become a permanent condition or feature of organisational life rather than a particular stage in a change process within an improvement project or transformation programme. Adapting, the process of adaptation and helping others to adapt may become a normal element of leadership. It might involve lengthy exploration before even a temporary aspect of a possible future destination can be discerned. Intelligent steering may be required if corporate planning is not possible. In such a situation the priority could be staying alive, solvent and in a game rather than achieving a set of objectives agreed in the past.

For leaders of organisations, the requirements for successful transition and/or a longer lasting adaptation could be both internal and external. Internal changes may need to be made to a leader's own approaches, priorities and perspective, while there may be many changes that others need to make and will be making in the external organisational and business environment. People and organisations need to be both proactive and reactive in initiating moves themselves, as well as reacting to the initiatives of others (Coulson-Thomas, 2001).

A common aspect of such a situation of uncertainty for most, if not all, of the parties involved is likely to be a higher level of overall risk, and greater difficulty in identifying, assessing and managing new and, in many cases, continually changing risks. How risk and risks are managed by leaders and those they lead, and whether the process of doing this helps or hinders creative and innovative responses and the process of adaptation and/or transition, could become an important success consideration and related requirement.

Risk Management and the Board

Companies face a range of new - and in some cases - continually mutating challenges and threats. Care needs to be taken to ensure that risk aversion and contemporary approaches to compliance and risk management do not stifle creativity, innovation and entrepreneurship (Coulson-Thomas, 2017b & c). When discharging their corporate governance responsibilities, especially when transitioning from one situation, set of priorities or business model to another, what contribution and support can directors and boards expect from risk management professionals and the wider risk management community? What should the role of risk management be in corporate governance?

One of the dilemmas faced by directors and other corporate leaders is the need to be entrepreneurial in ensuring the future succcess of a company, while at the same time retaining prudent control. Being entrepreneurial invariably involves a degree of risk. In achieving a balance between the imperatives of enterprise and control, a board needs to ensure that governance and risk management arrangements are appropriate in the situation and circumstances. What needs to be done in relation to an area of risk such as cyber security will depend upon them (Leech and Hanlon, 2017).

What should boards, entrepreneurs and their stakeholders make of contemporary approaches to corporate governance, compliance and risk management? Are they positive enablers or inhibitors of creativity, progress, transition and business development? Are too many boards risk averse and overly protective of past investments and current activities? Are their attitudes and approaches frustrating the search for new and better alternatives and more sustainable business models.

In particular, is risk management largely a compliance cost that contributes to overheads? What value do its periodic reports and practices add in an era of uncertainty and continually mutating cyber threats? Who needs to be involved in it? How conducive of innovation and entrepreneurship are the risk management community and risk management professionals? What needs to change if risk management is to be viewed as less of a hinder and more of a help in supporting transition and ensuring responsible risk taking across a corporate organisation?

Reviewing Risk Management

What should the role of risk management be (Coulson-Thomas, 2017a)? Does the risk management community itself need to go through a process of transition as suggested above? This article suggests a conversation is required that includes those who use the services of risk managers, to review what is meant by risk and risk management, and the extent to which risk management practitioners are perceived as a help or hinder to addressing contemporary challenges, and whether contemporary risk management attitudes and practices inhibit or support risk taking, enterprise and entrepreneurship. The article also recommends changes that need to occur if risk management is to make a more positive contribution to addressing contemporary issues.

Any review should also embrace the questions of from whose perspective risks should be assessed, and whether the range of stakeholders for whom risk managers should feel responsible should be increased. The roots of contemporary corporate governance in the UK and some other jurisdictions lie in a review of its financial aspects (Cadbury, 1992). A reassessment could also usefully consider whether there should be more focus upon non-financial risks such as risks to the environment and local communities, and whether more attention should be paid to the interests of particular stakeholders, for example customers. Directors must remember that value and income is created when customers decide to buy what their companies produce.

The UK Government's Department for Business, Energy and Industrial Strategy (2017) is considering ways in which boards might better engage with customers and employees. Should some risk managers do more to engage with a wider range of stakeholders, and in particular to observe and experience the lives of customers? An exposure to their needs, and how different corporate responses would benefit them, could help risk practitioners to develop a wider perspective and greater understanding of the rationale for incurring risk.

Understanding Realities

Corporate leaders should have a realistic appreciation of what they can expect from risk experts and be wary of those who are parasitic or seek to mystify with the use of complex terminogy and jargon (Coulson-Thomas, 1992, Micklethwait and Wooldridge, 1996). The risk management community itself needs to be realistic in relation to its profile and influence at board level, and whether its members have the breadth of experience and perspective to advise on the business and risk consequences of different corporate goals, objectives, policies, practices, priorities and strategies.

Risk management professionals need to ensure that what they do is understood, and they should endeavour to operate in ways that add value and contribute to more effective board and other decision making. They should also consider what they could do to increase the competence of directors, the effectiveness of boards and the standards and contribution of corporate governance, particularly at a time of uncertainty and change, and during a process of transition.

Risk practitioners also need to be realistic and, where appropriate and as requirements and circumstances change, accept the limitations of current risk management preoccupations and practices and the dangers of using out-of-date approaches and models. They need to recognise that particular risks can arise and organisations can be especially vulnerable during change, transition and transformation. They should anticipate challenges and recognise failures, and be prepared to handle them and both recover and more forward.

The risk management community needs to recognise the reality of the threats that people, organisations and communities face in areas such as terrorism, cyber-security and the spread of a contagious virus. Contingency planning may be required that is flexible, resilient and able to be quickly scaled up. Collaboration can be more effective than operating alone. For example, most cases of hacking and cyber-fraud are not reported. Victims may feel embarrassed, yet sharing an experience with one's peers and law enforcement agencies can increase understanding of the threat environment and improve the planning and implementation of counter measures.

Responding to New Sources of Risks

As the nature and sources of risks change, processes, systems, business models, governance arrangements and risk management practices need to be flexible and adaptive as well as robust and resilient if they are to remain relevant, current and vital. Approaches, expertise, risk management knowledge and any relevant standards should be continually updated (Baer, 1986).

Rather than being preoccupied with mitigating the risks they know about, risk professionals should devote more effort to developing the awareness, resilience and flexibility to quickly identify, analyse and address new and unexpected risks as and when they arise, for example during a process of transition. They should be embedded within business units and actively supporting them, rather than standing on the sidelines or cocooned in a distant head office.

In many situations and contexts, risk is too important to just be left to a small group of professionals in a head office environment. Too often people in front-line who are closest to emerging issues leave identifying, assessing and addressing them to risk and other specialists. More organisations should introduce arrangements that would encourage and allow any concerned employee to raise risk concerns, and to do so in a way that respects confidentiality and allows them to circumvent perceived barriers to honest reporting.

Communications relating to risk should be two-way. All those involved should be vigilant and open-minded. Opportunities should be explored for using personalised performance support to reduce risks, increase returns and make risk and other guidance available on a 24/7 basis whenever and wherever required, including when people are on the move (Coulson-Thomas, 2012a & b, 2013). Relevant support that can learn, be personalised, be quickly updated and can enable social networking could be especially valuable during a period of transition and/or transformation.

Changing Perceptions of Risk

Directors, boards and risk professionals should both have, and impart to others, a balanced as opposed to a negative view of risk. Modigliani and Miller, (1958) were among the first to draw attention to the relationship between risk and return. The management of risk should include establishing or clarifying risk appetite and determining what level of risk is appropriate in a particular situation given aspirations, ambitions and the relevant risk appetite. In rapidly changing situations, boards need to ensure that vision, mission, values, goals, objectives, strategies and risk appetite are still current and relevant.

In educational and professional development, associating risk with issues, obstacles and problems can give it negative connotations. Risk should be viewed positively and portrayed as an aspect of life, as an integral element of entrepreneurship and, in many situations, as an enabler and an arena of opportunity. Risk perceptions and risk management policies and practices should encourage and support curiosity, creativity, innovation and entrepreneurship and the openness and diversity that can contribute to them (Coulson-Thomas, 2017d).

People face a variety of risks in their personal lives and in their homes, as well as when at work. Encountering risk could be evidence that one is alive and trying to accomplish something, or that one is a target. Individuals like organisations can be hacked and they can become victims of cyber-fraud. Like medicine, risk management can be viewed and could be portrayed as a caring profession – concerned with protecting people as individuals and in their families, communities and organisations. It should have positive connotations. Active risk management could be regarded as evidence that a company is addressing its social responsibilities (Bowen, 1953).

Risk management can be so much more than damage limitation and avoiding downsides, costs and losses. It can also be about helping to create more value and a better future. Risk professionals need to look at what they can do to help customers and others to cope with risks they face and so turn their challenges into business and other opportunities. In some contexts, rather than just mitigating and avoiding certain categories of risks, risk professionals should also be alert to options for capitalising upon any new opportunities they might create.

Learning from Other Communities

Risk management is not just for business and management practitioners and professionals. Assessing risk is important for engineers, medical practitioners and many other professionals. For many occupational groups the process of professionalisation involves protecting clients and the public from risks they face (Millerson, 1964). Their instincts and approaches may be more relevant to issues currently faced by some boards than those of risk management professionals who use approaches that were developed when different priorities and business models applied.

Medical practitioners understand the risks of various treatments. They accept that for certain conditions there might not yet be a cure, but it may be possible to manage a long-term condition. In certain situations and in respect of some conditions self management may be possible (Cowdell, 2011). If, like other living organisms, communities and networks of people and their organisations are to grow, evolve and adapt risk practitioners should learn from the medical and other professions.

In particular, the risk management community could learn from the roles of specialists within the medical world. General risk practitioners may only take us so far. In future, and as will be mentioned later, more of the 'entry level' work and relatively standard tasks undertaken by risk management knowledge workers and professionals may be undertaken by AI and other applications (Kaplan, 2015). Greater specialisation, with more post-qualification development options in areas such as cyber-security, could be advantageous.

The diversity, variability, unpredictability and unreliability of human beings is a major source of risk. The risk management community needs also to learn from the understanding of human behaviour of groups such as psychologists and human resources practitioners, and from those who aggregate big data, for example when assessing the probability of different outcomes.

Remaining Current

In areas such as cyber-security, risks are mutating and many people and organisations face uncertainty and the possibility of unexpected and disruptive developments. In the face of unfolding events, professional qualifications - and even the shared experience of professionals when and where relevant - can quickly become out of date. Directors and risk managers need to be aware of the guidance issued to boards by bodies such as NACD (Clinton, 2014). Continuing professional development is required, along with real time updating in certain areas.

Within any profession there may be a small number of super-stars and a larger number of average practitioners (Coulson-Thomas, 2007, 2012a & b, 2013). The more routine, repetitive, structured and rule based activities of average or typical knowledge workers and professionals will increasingly be replaced by automated and digital solutions and expert systems (Kaplan, 2015). These are likely to be refined and updated by a relatively small number of superstars. Other super-stars might work as consultants, making their skills available to more than a single employer.

At a basic and fundamental level, risk and its management should be an integral element of primary, secondary and tertiary education. It should have an important place in the business and public administration curriculum. It should also be an integral element of the preparation of the members of most if not all professions. In more advanced courses, particular attention should be given to the role of risk in decision making, including the support of boards in crisis situations when directors may be under severe time pressure. Again, one may be able to learn from experiences in other arenas (Allison, 1971; Allison & Zelikow, 1999).

Embracing Contemporary Approaches

Leaders need to be alert to approaches being adopted by other people and organisations going through a process of transition. Applications of performance support in different organisations and sectors can help people to cope in such circumstances, rapidly transform performance, ensure compliance. reduce costs, contain risks and deliver a variety of other improvements (Coulson-Thomas, 2012a & b, 2013). They can benefit people, organisations and the environment and represent a quicker, more affordable and less disruptive route to high performance organisations.

Too many organisations restructure and adopt programmes that are expensive and time consuming. For example, traditional approaches to compliance and risk management can increase overhead costs, cause delays and result in key work groups focusing upon compliance rather than customers.

The people of an organisation should be supported through a process of transition. Support tools can make it much easier for people to behave in preferred ways. They can make it very difficult or impossible for them to behave in undesired ways. The support provided can be continually updated. It can be interactive and can incorporate and facilitate social networking.

Balancing Risk and Performance

Returning to the issue of balancing prudence and entrepreneurship, incorporating checks and blockers into support tools can enable responsible risk taking, bespoke responses and the creation of new solutions (Coulson-Thomas, 2012a & b, 2013). It can prevent outputs that would represent commercial, quality, legal or regulatory risks. Personalised and relevant support can be made available 24/7, wherever and whenever needed, including when people are on the move.

Performance support tools can quickly deliver large multiple returns on the cost of developing them. They can also address traditional trade offs such as that between risk and return by both reducing risk and increasing return. At the same time, because checks and balances can built into them, support tools can set people free to be creative, innovative and entrepreneurial.

Support tools can capture and share what top performers do differently (Coulson-Thomas, 2012a & b, 2013). They can enable average performers to adopt the winning ways of these higher performing super-stars. They can be bespoke and personalised. The support they provide can reflect our individual understanding. They can learn and be continually updated, for example as offerings and regulations change or during a process of transition and transformation. They can evolve to match the changing requirements and competences of users.

Extending the Reach of Risk Management

The focus of risk management and leaders needs to extend beyond organisational boundaries to embrace supply chains, customer aspirations and evolving networks of relationships. Risk management professionals need to be forward looking and concerned with the support of decision making and creating a safer and more secure and sustainable future. Corporate systems and processes should be sufficiently resilient to withstand the simultaneous materialisation of multiple risks, including when supply chain realtionships are re-engineered (Bartram, 1996).

Risk management approaches, practices and techniques also need to reflect the inter-connected nature of contemporary corporations, which are networks of relationships with customers, suppliers and business partners (Coulson-Thomas, 1992 & 2002). Risk management, cyber-security and anti-fraud measures should embrace corporate data held externally, corporate systems operated by third parties, mobile devices and working from connected homes.

Risk, ethics, regulation and other factors are inter-related and inter-dependent. Connectivity increases exposure to cyber risks (Clinton, 2014). Manufacturers of mobile and internet-of-things devices need to take responsibility for reducing the risk of their connected products being misused. Many users of the appliances, devices and other products they produce just opt for standard manufacturer passwords which are known to hackers. Responsible manufactures should ensure their customers are made aware of the risks involved.

Thought needs to be given to the risk management community's own supply and potential value chain and to the areas in which it could most usefully extend its influence. For example, one can sometimes go beyond protection and being defensive. Thus cyber-security specialists may have options to track and respond to attacks, either alone or in collaboration with relevant law enforcement agencies.

Flexibility and Adaptation

As preoccupations, possibilities and priorities alter, the risk management community needs to offer affordable, timely and practical advice and solutions. When there are narrow and shortening windows of opportunity there may be little point suggesting a multi-year transformation or culture change programme. Requirements and a business model may change long before it is implemented. Living, adaptive and flexible approaches and leadership are required.

The risk management community should monitor trends, technological and other developments, and changing management and board priorities and practices, assess their impacts upon risk management practices and consider what they could do to help people and organisations to cope and adapt (Coulson-Thomas, 2002 & 2007). For example, risk managers could contribute their assessment of risk and probabilities to accounts prepared on a confidence accounting basis. They could also help customers and wider society to confront certain of the risks they face. This potential could give rise to new business opportunities.

Complex and interdependent risks do not necessarily require complex and expensive solutions. They can sometimes be best addressed by quicker and simpler approaches. For example, if behaviour change is required, one could use levers that can be quickly operated, such as changing a pay plan or updating the performance support that makes it easy for people to do the right, approved or preferred thing and difficult for them to pursue an undesirable course of action or respond in a way that is wrong, discouraged or inappropriate (Coulson-Thomas, 2012a & b; 2013).

Reviewing Approaches and Priorities

More risk professionals should be prepared to go beyond preparing and maintaining risk registers and reporting risks. They should help colleagues to determine ways of mitigating them. Their experience, expertise and understanding of risk should enable them to suggest alternatives and new courses of action. They should be proactive rather than defensive, and able and willing to suggest solutions rather than just report problems.

Risk management policies and practices should encourage and support curiosity, creativity, innovation and entrepreneurship and the openness and diversity that can contribute to them. Risk professionals should be alert to various factors that hinder creativity, innovation and entrepreneurship and be able to advise on how they might be overcome. They look beyond risks to aspirations and devote more attention to overcoming obstacles and barriers to their achievement.

Directors, boards and the risk management community should understand how factors such as excessive order, rigidity and the lack of openness, diversity and challenge can stifle creativity (Crews, 2017). Risk practitioners should go beyond helping their employers and clients to reduce the risk of desired levels of creativity, innovation and entrepreneurship not occurring. They should also be able to advise on ways of stimulating creativity, enabling innovation and supporting entrepreneurship (Coulson-Thomas, 2017c & d).

Innovation in Risk Management

Risk management practitioners also need to be prepared to innovate and explore. The risk management community must play its part in addressing future applications of disruptive technologies. For example, risk professionals should take steps now to anticipate the risks associated with various adoptions of block-chain technology and consider possible next steps.

Compliance with outdated requirements can leave the door open to new risks. To innovate, risk professionals need to be open to discussion, debate and new developments. Rather than unthinkingly apply a standard approach, the risk community should encourage greater diversity and be prepared to simultaneously explore a number of different responses and solutions to priority risks. In relation to corporate governance and related areas such as compliance and risk management, one has to achieve a balance between rules and flexibility in order to achieve economic growth (McGhee and Low, 2017).

No-one may have experience of a new and unexpected development. Risk needs to be seen as an aspect of a much wider range of roles from the bottom to the top of an organisation. How it is handled as transition, innovation and other developments occur needs to be built into systems, processes and tools in ways that can be quickly updated (Coulson-Thomas, 2012a & b; 2013).

Professionalisation

Corporate leaders have an interest in securing informed, balanced, objective and relevant advice. Some risk management professionals should be more prepared to be accountable for the advice they give and their scanning, scrutiny and assessment of the risk environment. As professionals they should behave responsibly, fairly and with integrity (Carr-Saunders and Wilson, 1933).

Risk management practitioners should act to protect the interests of their employers, clients and the general public. If risk practitioners want risk management to be accepted as a recognised profession, they much accept and discharge the responsibilities this involves and not to be overly led and unduly influenced by their own self-interests (Johnson, 1972).

Ideally, risk professionals should be perceived as creators of value rather than as an overhead cost. They should be objective and sceptical when assessing, critiquing and reporting upon risks relating to their company's core business strategies and business models and their possible consequences, implications and requirements. In this and other areas they should give honest advice and counsel.

Developing a Representational Role

As a profession, risk management needs to become involved in public debates. For example, manufactures of mobile devices feel they have a duty to use encryption to protect the confidentiality of their customers' communications. This same encryption can prevent law enforcement and security agencies from tracking the communications of criminal and terrorist suspects. Governments, societies and boards sometimes face difficult choices when protecting people from some risks can leave them open to other risks.

In such areas, the counsel of leaders of the risk management community could make a difference. Because risk impacts upon so many aspects of people's lives, the risk management community could consider how best to contribute to public debates in areas in which it has interests and could make a contribution. It could also consider the extent to which it could develop and should discharge a representational role, not just in relation to the interests of risk professionals themselves, but in other areas of public concern such as sustainability and risks associated with climate change.

In conclusion, the ambitions, approaches, perspectives and priorities of both corporate leaders and risk managers may need to undergo a process of change, transition or transformation if the latter community is to provide the former group, colleagues and others with the help and support needed to handle the risks, challenges and opportunities involved in steering organisations, their stakeholders and wider society through periods of uncertainty and transition en route to a more inclusive and sustainable future.

Note

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Abstract

One of the dilemmas faced by directors and other corporate leaders is the need to be entrepreneurial in ensuring the future succcess of a company which involves risk, while at the same time retaining prudent control. Transitioning leadership suggests a process of adjustment, adaptation, transformation or metamorphosis from one condition, situation or state to another, depending upon the extent of the internal or external change required to continue to operate and cope. The process also involves risk and its management. Boards need to ensure that risk aversion and contemporary approaches to compliance and risk management do not stifle creativity, innovation and

entrepreneurship. In many contexts, approaches to risk management and the risk management community may need to change if risk management is to be viewed more positively as an enabler of enterprise, transition, change and transformation rather than as an inhibitor and overhead cost.

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