Moving People from Process to Preference!

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Abstract: Recent history is littered with companies that have had excellent risk management structures, and yet have fallen prey or have been exposed to huge losses as a result of a failure to manage risk. What causes this? Why does a good risk management structure and robust processes fail to deliver results?

The aftermath of September 11 highlighted how emotions affect people’s response to risk. Research has compared the effect on workers close to the site as similar to how refugees respond [1], has demonstrated the effect that anger and fear can have on risk judgments [2], and contends that people assets can only be harnessed by managing both intellectual capital (your peoples’ knowledge) and emotional capital (the feelings, thoughts and emotions of your people) [3]. How can we engage these emotions so that we can move from a process (head) to a preference (heart) response and more importantly how can we have a practical and positive impact on our organisations Risk Management culture?

In this paper David Smith examines these issues and provides an organisational risk management growth model as an answer to these questions.

Keywords: risk management, perception, emotional response, organizational culture, organisational risk management growth model

1. Introduction

The purpose of this paper is to provide a practical framework for Risk Managers to assist with embedding risk management culture within their organization. As technical risk management experts we often forget that we have had to learn to crawl, before we could walk, before we could run. Yet we and our organizations expect that the introduction of risk management is like buying a new pair of shoes – they may be a bit uncomfortable for a while, but you will quickly get used to them. Unfortunately neither life, nor the introduction of enterprise wide risk management is that simple. The framework discussed provides a basis to assist us with “toddler training” our organizations.

2. The Impact of Perception on Risk Management

As a result of our training and experience Risk Managers have a good understanding of the various technical aspects of risk management, unfortunately like all technicians the very skills and the language we use can often become a barrier in communicating risk throughout our organization.

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We see risk as a combination of the consequences of an event and the likelihood of an event with those consequences occurring (technical risk), however as Sandman [4] has pointed out, societies view of risk equates with hazard plus outrage (sociological risk). In other words we concentrate on calculating the risk, identifying the controls in place, determining the residual risk, and assessing on that basis if we will accept the risk or not, whereas the community’s response will be based on the level of outrage the risk event produces.

In most organizations the only time that “sociological risk” is taken into account is when dealing with irate stakeholders often because of environmental or biological hazards; or reputational risk as a result of mismanagement or an internal scandal that has been made public. As “sociological risk” is about what society thinks we have an external focus when dealing with it.

This external focus is what Thompson [3] calls external “emotional capital” and what is often described as brand value, and goodwill, and is being seen by more and more companies as a core part of their asset base. We often forget that there is internal “emotional capital” which is held in the hearts of the people within the business. Thompson describes this internal “emotional capital” as the feelings beliefs and values held by everyone in the business. Just as emotions impact upon the communities understanding of risk it will also impact upon the internal risk perceptions of our staff.

Figure 1 should not be seen as comprehensive but does illustrate how both intuitive responses and rational responses work collectively to determine how a risk event is perceived. “Interest”, for example, is an important factor in molding our perceptions of risk. At the personal level I am very interested to hear about injuries to star players in the football team that I support as it will impact on how the team is likely perform at the business end of the season. You on the other hand may not have the slightest interest as you may not support the same team or even the same code of football that I do. In the work context we see this playing out with the “silo” mentality that often develops in organizations.

Managers are very interested in keeping their own risks under control and are not interested in risks that they see as the responsibility of others. The result can be a heightened perception of risk as they are considering only the impact on themselves, or it can underestimate a risk by not considering interdependencies.
Plant risk, production risk, environmental risk, and reputation risk are often dealt with by different “silos” and the interdependency of risk may not be adequately understood or managed within each silo. In addition the particular interest of a manager can lead to a risk assessment methodology which considers the risks under their control in isolation and doesn’t consider common mode failures. For instance different government agencies are often responsible for managing wildfire, for managing floods and for insuring adequate domestic water supply. The risk of drought leading to a wildfire in a water catchment area followed by a significant rain event which contaminates the reservoir can be a far greater common mode risk than the sum of the individual risks. Organizations, if they are not careful, can expose themselves to the same mistake.

3. The Impact of Emotions on Risk Management

Emotional theory has its roots in many disciplines which can roughly be broken into four broad perspectives (A more in-depth discussion can be found in Fineman [5]):

- A biological approach based on the Darwinian view that our emotions are hardwired responses which stem from pre-historic past;
- A psycho-dynamic Freudian model that views emotions as deeply rooted in our early childhood experiences;
- A cognitive approach which believes that our emotions have no psychological meaning in themselves, unless we are able to make sense of what see or hear. In other words they need to be understood within the context or event that they occur within;
- A social approach that sees the culture within which the emotion(s) occurs as all important.

Whilst it is true that academic libraries are full of learned discussions arguing the relevant merits of each perspective, risk managers need to have some understanding of them all if they hope to engage staff at all level of their organization.

The above approaches conform with the Psychometrics Paradigm [6] in risk perception that has been identified as having the factors of voluntary acceptance of risk, ability to control the degree of risk, certainty of fatal impact etc has being relevant. Other factors such as the hazard outrage approach of Sandman [4] already mentioned and Renn’s cultural theory of risk [7] is important for risk professionals to understand.

Firstly, risk managers need to understand that the feelings and emotions that people are experiencing at any given time will effect their perception of risk.

How often do we see people engaged in risk management processes because it is seen as a compulsory activity? They have no real interest, and no real understanding of how it can be integrated into the way they carry out their business. The head and heart are both not engaged – this is not their fault, it stems from the biological perspective and 300 years of human thought.

Descartés introduced the notion of dualism of mind and body in the 17th century. In everyday thinking we see this playing out as athletes are prepared both “mentally and physically”; “it’s all in your mind” is common parlance; a tendency to treat the mind as the body’s boss; and there is seen to be no place for emotion in the work environment.

In 1872 Darwin’s paradigm shifting work the “Origin of Species” reinforced the denigration of emotions when he viewed them as “remnants from 300 million years ago, where they were necessary for the survival of our species”. We need to understand how
this flight/flight mentality that has been “hard wired” for our survival can affect people by making them belligerent or withdrawn in the workplace, and we must not limit ourselves to a perspective that denigrates emotions and ignores the “softer” people aspects as this will de-rail the implementation of enterprise-wide risk management practices and doom them to failure.

More recently the groundbreaking work of leading neurologist Antonio Damasio [6] found that “the emotional centres of the brain are integral to thinking and reasoning”. Despite having fully functioning cognitive faculties patients with just the emotional centres of the brain damaged through trauma were unable to think, reason, and function in society. Emotions are linked to the way people think and to their perceptions of risk.

Secondly it is important to understand that emotions, like risks, need to be understood contextually within the organizational event and culture in which they occur, and will effect the individual perception of risk.

For example research indicates that people evaluate things more positively when in a “good mood” [7], that anger increases risk perception [2], that “moods” effect the way people process information [8], and that people over-estimate ambiguous and unfamiliar risks [9]. From an organizational perspective we need to understand that in the “good times” people are likely to be more positive in their assessment of risks, while following a major organizational crisis or event that has created a level of anger within staff perceptions of gloom and doom are to be more likely.

An organization that has a history of staff redundancies and a poor industrial relations culture has the possibility of causing staff to be in a mood that will make them more pessimistic, and perceive problems, and risks, as more serious than they really are [10]. This potentially heightened risk perception is an issue that enterprise wide risk managers need to be aware of.

Figure 2 describes the relationships between feelings emotions, and moods, and the impact that these have on risk perception. Feelings are the unseen component of a person’s “affect” and are important to consider because with the growing smile industry there is increased demand on employees for “emotional labour”. Workers are now
required to put on the company smile and portray the desired company image to customers [11].

As emotions and feelings are also attached to events, people, and circumstances they are of paramount importance to Risk Managers because it is these emotional responses to events which can impact on risk perception. For example my organisation is currently examining our motor vehicle travel risks for our “on-the-road” staff. One of the interesting findings was that one of the project team had quite divergent views on the likelihood of staff being involved in a serious motor vehicle accident. Our accident statistics showed that the incidence of severe vehicle damage was low and injuries to staff were even lower. Further examination identified the fact that this person had a close family member or associate who had been severely injured in a motor vehicle accident. They were bringing their own emotional experiences to their analysis of the risk.

Feelings and emotions are easier to deal with because they are short term, and, because they are associated with people or events, the same bias is not likely to effect people’s views of risk in other unrelated areas. Moods on the other hand are longer term and are not attached to events or circumstances. As such they will impact positively or negatively on risk perception more universally.

In addition the “affective” response towards a particular risk may have a cascading influence on broader consequences, such as financial, travel, investment, the seeking of and a narrow “go” or “no go” response to risk, because both social and individual factors act to amplify or dampen perceptions of risk. In other words social amplification occurs. [12]

4. An Organizational Growth Model as a Possible Solution

One of the most well known models of organisational growth is that of Greiner [13]. Greiner’s model suggests that organisations go through five stages of development and appropriate strategies and organisational structures to support each of these stages need to be in place. Like all models it has its problems however it useful to understand why things work and don’t work within an organisation.

Briefly the model consists of 5 evolutionary stages and five revolutionary stages as outlined in the table below:

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<th>Evolutionary Stage</th>
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<td>1. Growth through creativity</td>
<td>1. Crisis of leadership</td>
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<td>2. Growth through direction</td>
<td>2. Crisis of autonomy</td>
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<tr>
<td>3. Growth through delegation</td>
<td>3. Crisis of Control</td>
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<td>4. Growth through co-ordination</td>
<td>4. Crisis of red tape</td>
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<td>5. Growth through collaboration</td>
<td>5. Crisis of internal growth</td>
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The importance of the model from a risk management perspective is that organisations need to go through the same growth processes with risk management - from standardised process, to devolution of responsibility, to centralisation of support mechanisms, and finally to cross-functional understanding and collaboration.
The Start-up Phase

In this stage initial frameworks and competencies are developed. It is by necessity largely informal and involves reacting to demands from within the business, for example by conducting one-off risk management activities and developing simple tools that can be deployed rapidly.

The Consolidation Phase

Successful initiatives introduced in the start-up phase are identified, and further developed and formalised. The thrust of activity during this phase is aimed at developing consistent and robust methodologies through the organisation.

The Embedding Phase

In this phase formal risk management practices begin to be integrated with other key business processes such as business planning, and organisational reporting.

The Normalising Phase

In the final phase risk management practices are well established, well integrated and accepted broadly as a necessary and value-added part of conducting the business’ strategic and operational activities.

Risk managers need to understand these stages so that they can lead their organisation to crawl, and then to walk and then to run in risk management terms. Expecting staff who are new to risk management concepts to be able to understand and the opportunity side of risk management is unrealistic and doomed to failure.

Fig. 3: Organizational Risk Management Growth Model [14].
It is important to understand that whilst the model can be applied at the organisational level, individuals and teams may well be at a different levels. Recently, we experienced a situation where a large proportion of the management team in a particular section left and took a number of key staff with them. Despite the fact that all of the risk management structures, processes and supports remained the same and were well embedded in the culture of the section, the level of understanding and practice dropped markedly. With new people, who were not exposed to the prior training and development, and were not familiar with why some of the practices were in place we found that they were only following a process and had moved backwards to the “start-up” phase. It took considerable time energy and resources to regain the momentum in the section that was lost.

The model is also a useful tool for risk managers to understand at what level individuals and teams are operating at. For instance if I am assisting a team to manage their risks and they are confusing risk sources (hazards) and risks, it is highly probable that they are operating at the “start-up” level. I then know that I have to give the team tools and expertise to understand threat and opportunity, to be able to prioritise their risks and to look at interdependencies if I am to develop their understanding of risk to the next stage.

In order to move staff and organisations along this journey we have already seen that engagement has to be at the intellectual level (head), the emotional level (heart), and that we need to provide them with the techniques and skills to be successful (hands).

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**Fig. 4: Linking Risk Concepts with Performance - Adapted from [15]**

A **Head** (understanding and interpretation), **Hands** (skills and competencies) and **Heart** (beliefs, values and emotions) approach is embedded into the above model [15]. In stage one of figure 3 above you are engaging people at the head level by providing the justifications and structures to support the organisation. In stage two and three you are
building competencies and skills (hands) and in stage four people can really see the benefits and are fully engaged because they want to be (heart).

5. Conclusion

What I have attempted to outline in this paper is that to engage staff in an enterprise wide risk management model that you need to address both the intuitive, and rational or cognitive levels.

It is important to realise that to achieve the ultimate level of performance the head, hands and heart all need to be involved. Without the heart people will not have the will to perform, without hands they will not have the skills, and without the head they will not know what to do. All are integral and we need to engage people at all levels to achieve results.

References


[15]. Much has been written about Social Amplification of Risk, I can do no better than refer the reader to: Kasperson J. X, R. E. Kasperson, N. Pidgeon and P. Slovic., *The Social Amplification of Risk: Assessing Fifteen Years of Research and Theory*. In


[17]. A more detailed maturity model can be found at the following web address: http://www.fin.gov.bc.ca/oeg/ias/Risk_Assessment_Tools.htm, or by contacting the author direct.


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