

# The David Hume Institute

The risk management of everything:  
rethinking the politics of uncertainty

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# The risk management of everything

- ‘Risk talk’ explosion; risk management description of more and more
- Private and public sector: regulatory changes
- Riskier world or management fad? A new politics of fear?
- The rise of *secondary* risk management and the future of expert judgement?

# Turning organisations inside out: internal control

- Used to be private; Combined Code; SARBOX becoming more public; directors' responsibilities
- Internal control defined in risk management terms; 'Turnbullisation' of organisations post 98; COSO 2004
- Internal control/good governance link. Why?
- Rise of self-insurance; significance in regulatory systems

# Turning organisations inside out: internal control

- Standard response to crisis; organizational translations of risk
- Problem of knowing ‘effectiveness’; SARBOX 404 management and auditor certifications
- Issues: direct cost; distraction; internal control as value system
- Tendency for increasing focus on secondary or reputational risk?

## State as (secondary) risk manager

- Welfare state as risk management function
- Crises of risk handling: UK BSE; Recent accent on risk in UK government; project management; mega-project overruns
- Role of risk communication as reputation management/political risk management?
- Creating regulatory agencies as blame management?

## State as (secondary) risk manager

- Regulatory organisations becoming explicitly risk based: UK FSA as model
- Resource allocation/common language
- Risk = failure is possible?
- Politics of risk: management of regulatory expectations gaps
- Can public responses be managed? Rise of consumer lobby

# Rise of reputational risk management

- Reputation: among top manager 'fear'
- Invented 'discipline': Shell 1995, (2004); Andersen; Reputation versus materiality?
- Are processes of 'social amplification' not controllable? New category of uncertainty.
- Organisational investment in relational activities; CSR as risk management

# Rise of reputational risk management

- Increasing accent on reputation = shift in balance of risk management thinking
- If everything can potentially threaten reputation, then reputation demands the risk management of everything

# Explaining the risk management of everything

- Efficient response to ‘riskier’ world? More primary risks since 1995?
- Natural hazards versus by-products of progress? Risk society thesis
- Management fashion? Supply side pressures to talk-up risk
- More demanding social environment for organisations

# Explaining the risk management of everything

- Individualisation; activist consumer and other groups; rise of rights
- Expectations of management action and responsibility in more areas
- Fear defines identity of regulatory state = new categories e.g., operational risk
- Defensive risk management; responsibility avoidance

## Consequences

- Claimed benefits of new risk management; the ‘opportunity society’
- Value creation; basis for management self-challenge
- Risk officers as champions and facilitators
- Improved focus on risk control and regulation double-edged

## Side effects of risk management

- Process, documentation and auditable trails; hyper-visibility
- ‘Legalised’ internal environments regardless of actual legal risk
- Hard-wired defensiveness; attention directing, ‘motivational crowding’ (Frey)
- Emergence of risk-based cognitive model of organisation

## Side effects of risk management

- Risk aversity vs responsibility aversity; organisations transferring risk; organisations get safer; individuals more vulnerable, less able to transfer/diversify
- Crisis of public judgement?
- Concern with personal reputation: consequences for professional judgement
- Judgement: reasonable but could turn out to be wrong

## Side effects of risk management

- Professionals managing own secondary risks as priority?
- Judgement constrained by legal/media pressures
- Defensive reporting e.g. moneylaundering?
- Audit reports; 'defensive' medicine; student references; School trips risk assessment

# Side effects of risk management

- Risk industry driven by secondary risk management; decline of risky 'public' judgements
- Secondary risk management and the 'society of small print'; When disclaimer paragraphs are longer than the opinions they qualify, we know that something is going wrong in our society

## Conclusions and recommendations

- Risk management explosion + rise of secondary risk management
- OFR; IAS; SARBOX 404; Basel 2; revision of Turnbull; all leading to RISK AUDITABILITY
- Marginal effect of changes in liability law?
- How to roll back secondary risk management culture? Audit explosion in new clothes

# Conclusions and recommendations

- Two levels: management control and politics
- Intelligent risk management; challenging futures, blame free, experimental.
- A new politics: rehabilitate trust in experts.
- Safe havens for public judgement vs auto-blame
- [www.demos.co.uk](http://www.demos.co.uk)