



Society of Actuaries in Ireland

Embedding a Risk Culture: Behavioural Aspects of Managing Risk

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UCD Centre for Corporate Governance
(www.corporategovernance.ie)
Established February 2002

1. Training for Company Directors

- Director Development Programme – short courses on various aspects of corporate governance
- In-house, customised courses for individual company boards
- Diploma in Corporate Governance

2. Promote Research in Corporate Governance

Overview

1.

- Perspective on corporate governance

2.

- Influence of culture

3.

- Features of boardrooms conducive to psychological and behavioural elements

4.

- Behaviour of board chairmen

5.

- Cognitive biases

Sources



- Walker Report (2009) *A Review of Corporate Governance in UK Banks and Other Financial Industry Entities*. Annex 4: Psychological and Behavioural Elements in Board Performance
- Lloyd's (2010) *Behaviour Bear, Bull or Lemming*, Lloyd's, London.

1. View of Corporate Governance



- Bloomfield, Stephen (2013) *Theory and Practice of Corporate Governance: An Integrated Approach*, Cambridge University Press, Cambridge

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2. Influence of Culture



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Graduate Business School

2. Influence of Culture

- Official policies specify what management wants to happen (“laws / rules on the books”)
- Corporate culture determines what ACTUALLY happens, and which rules are obeyed, bent or ignored (“laws / rules in practice”)

Committee of Sponsoring Organisations for the Treadway Commission (1992)
Internal Control - Integrated Framework, American Institute of Certified Public Accountants, p. 19.)

2. Influence of Culture

- Justice Owens report on HIH and culture

“A cause for serious concern arises from the group’s corporate culture. By ‘corporate culture’ I mean the charism or personality—sometimes overt but often unstated—that guides the decision-making process at all levels of an organisation. In the case of HIH, the culture that developed was inimical to sound management practices. It resulted in decision making that fell well short of the required standards.”

HIH Royal Commission 2003, *The Failure of HIH Insurance*, Commonwealth of Australia, Canberra.

2. Influence of Culture



Collegiate

Passive, Disengaged, Resigned

Risk averse

Confused, lacks direction, leadership

Chaotic, over-trading

Clash of cultures

Secretive

Managerialist

Competitive

Likes risk

Materialistic

Aggressive



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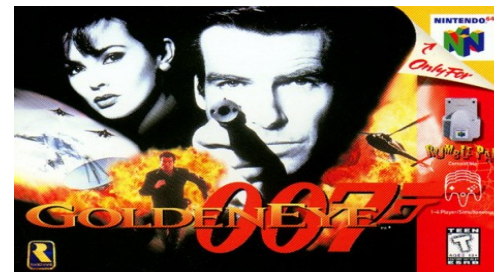
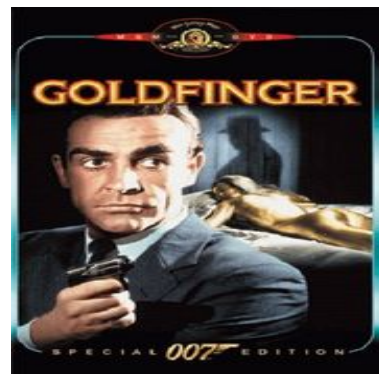
Aggressive

What is missing from this list?



2. Influence of Culture

- CEO born in Ireland, raised in England, PhD Cambridge
- Sign on door “Authorised personnel only” – behind the door hush-hush projects – it was a broom cupboard!
- Conference rooms named after villains in James Bond movies – GoldenEye, Goldfinger, Dr No
- CEO drove quintessential Bond car – Aston Martin
- Stocked piranhas in office fish tank



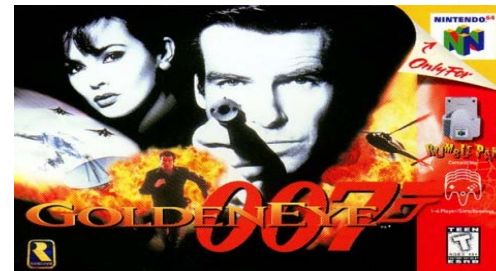
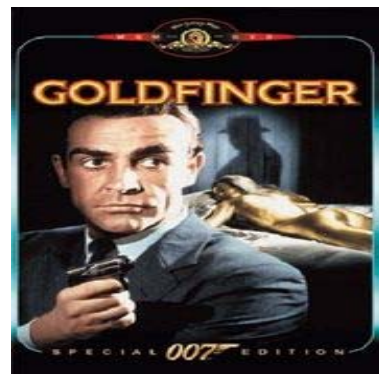
Ben Worthen, Paul Sonne, Justin Scheck
Long before the H-P Deal, Autonomy's Red Flags
WSJ, 27 November 2012

2. Influence of Culture



Question:

How would you describe the culture of this organisation?

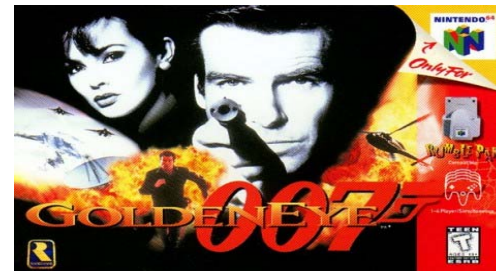
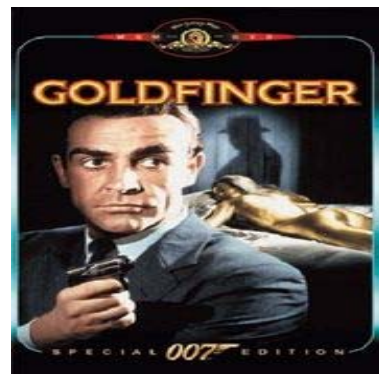


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2. Influence of Culture



Competitive
Secretive
Sense of humour
Boyish
Disconnect from reality/fantasisit
Likes risk



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2. Influence of Culture (inter-personal relations)



Friendly, supportive, warm, trusting

Loyal

Unfriendly, cold

Polarising: in-group out-group polarisation, sneering

Competitive

Narcissistic

Hubristic

Domineering, aggressive,
bullying



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What is missing from this list?



2. Influence of Culture (communication in organisations)



Speaking up - Full, frank open communication

Guarded, superficial

Information overload/obfuscation

Weasel words

Silence

Whistleblowing



2. Influence of Culture (communication in organisations)



Speaking up - Full, frank open communication

Guarded, superficial

What is missing from this list?

Information overload/obfuscation

Weasel words

Silence

Whistleblowing



**2. Influence of
Culture
(communication in
organisations)**

“The Rock” TS Eliot

The Eagle soars in the summit of Heaven,
The Hunter with his dogs pursues his circuit.
O perpetual revolution of configured stars,
O perpetual recurrence of determined seasons,
O world of spring and autumn, birth and dying
The endless cycle of idea and action,
Endless invention, endless experiment,
Brings knowledge of motion, but not of stillness;
Knowledge of speech, but not of silence;
Knowledge of words, and ignorance of the Word.
All our knowledge brings us nearer to our ignorance,
All our ignorance brings us nearer to death,
But nearness to death no nearer to GOD.
Where is the Life we have lost in living?
Where is the wisdom we have lost in knowledge?
Where is the knowledge we have lost in information?
The cycles of Heaven in twenty centuries
Bring us farther from GOD and nearer to the Dust.

2. Influence of Culture (communication in organisations)

“The chairman, EDs and NEDs need to be experts on the ability to observe, interpret and draw conclusions from what people are giving clues about, but not talking about: that is, interpreting what lies just below the surface.”

(Source: Walker Report (2009: 142))

2. Influence of Culture (communication in organisations)

“For me, it is a red flag when I see communication lines being controlled in an organisation”

(Source: HP Executive, The Intoxication of Power – Leadership and Hubris,
Cambridge Judge Business School and Deдалus Trust Conference 19
September 2013)

2. Influence of Culture (Communication in organisations)

Studies of disasters often show that the problem was not with the processes but [that the processes] were ignored or over-ruled.

**“Busy fool”
Learn to pick your battles**

Internal communications and behaviour of senior managers is critical in setting the tone

2. Influence of Culture (Communication in organisations)

God grant me the serenity
to accept the things I cannot change;
courage to change the things I can;
and wisdom to know the difference.

(Source: Reinhold Niebuhr's "Serenity Prayer")

OR

What's everyone's problem is no one's problem

(Bystander theory)

2. Influence of Culture in organisations



Question

Who most influences culture in organisations?



Question :

How do you change the culture of organisations?



Question:

Do boards have a role in the culture of organisations?

3. Features of boardrooms conducive to psychological and behavioural elements



3. Features of boardrooms conducive to psychological and behavioural influences

1. • Boards and board behaviour cannot be regulated
2. • Boards and board behaviour cannot be managed by structure and controls
3. • Behaviour is dynamic, evolves
4. • Depends on situation, strategic context and group dynamics
5. • Desires strongly influence behaviour
6. • Human beings are susceptible to social influence

Walker Report (2009) *A Review of Corporate Governance in UK Banks and Other Financial Industry Entities*.
Annex 4: Psychological and Behavioural Elements in Board Performance, p. 137

4. Features of boardrooms conducive to psychological and behavioural elements

“Susceptibility to social influence is not a trait of those who lack will-power; it is hard-wired into all of us”

Walker Report (2009) *A Review of Corporate Governance in UK Banks and Other Financial Industry Entities*.
Annex 4: Psychological and Behavioural Elements in Board Performance, p. 137

3. Features of boardrooms conducive to psychological and behavioural elements



Question

What are the greatest influences on behaviour on boards?

4. Cognitive Bias



UCD Michael Smurfit
Graduate Business School

4. Cognitive biases



Question

What is the purpose of a company?



Question

Given the purpose of a company, what is the central purpose of a board of directors

4. Cognitive biases

Subconscious thoughts cloud judgements.

Behavioural theory tells us there are many unintended filters which distort the way we think about risk. Being aware of these biases will lead to clearer thinking and a better management of risk.

4. Cognitive biases

Perceptions drive behaviour

- More attention is given to:
 - Events which people dread
 - Events which affect a lot of people
 - Unfamiliar events

4. Cognitive biases

Human beings misjudge risk

- Representation bias
- Availability bias
- Anchoring
- Hindsight bias
- Cognitive dissonance
- Confirmation bias

Summary

1. Corporate governance as 'geology' not 'geography'
2. Influence of culture
3. Features of boardrooms conducive to psychological and behavioural elements
4. Cognitive biases

THANK YOU!



QUESTIONS?