

Risk Managers as Crisis Managers?

– Impact of the Covid 19-Crisis on the Tasks and Roles of Risk Managers in Germany and Switzerland

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Agenda

- **Introduction**
- Prior research
- Methodology
- First findings
- Discussion and limitations
- References

Introduction I/III

- a major shift in research and corporate practice from risk silo management to a more holistic risk management (Mikes, 2009; COSO, 2017)
- ERM = “label for a system of concepts [...] to identify all material risks to their objectives [...], design controls and mitigations which produce a residual risk consistent with a target risk appetite and monitor this entire process” (Power, 2009, p. 849)
- Studies concerning the state of implementation and the effectiveness of ERM reveal mixed results (for a discussion see Bromiley et al., 2014)
- ERM expertise and processes = a dynamic capability for firms to adapt to unforeseen events and environmental turbulences (Nair et al., 2014; Bogodistov & Wohlgemuth, 2017)
- turbulences are caused by various risks

Introduction II/III

- Risks can be categorized into preventable risks, strategy risks resulting from a firm's business model and external risks (Kaplan & Mikes, 2012)
=> risks require different risk management approaches
- External risks such as Covid-19 are hard to foresee, develop very dynamically, have a severe impact and are difficult to control
- Question: Do risk managers contribute to the successful management of Covid-19?

Introduction III/III

- The purposes of our research are
 - to analyze the impact of the Covid 19-crisis on the tasks, roles and formal and informal organizational integration of risk managers,
 - to evaluate in how far risk managers successfully contribute to organizational adaption to the Covid 19-crisis (ERM as a dynamic capability?) and
 - to identify the main influence factors on this process

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Prior research I/III

Studies concerning the tasks and roles of risk managers

- few international studies concerning the tasks, competences and roles of CROs (Lee & Shimpi, 2005; Liebenberg & Hoyt, 2003; Pagach & Warr, 2001, Karanja & Rosso, 2017) => dominance of the compliance function
- Few studies focusing on banks: risk managers as compliance officers, modelling experts, strategic controller or strategic advisors (Mikes, 2008)
- SMEs in Germany and Switzerland: risk managers as modelling experts and co-ordinators, partly as compliance officers (Vanini, 2018; Vanini & Gutacker, 2019) or as business partners (Vanini & Kempcke, 2020)

=> Tasks and roles under non-crisis circumstances

Prior research II/III

Studies concerning the tasks and roles of risk managers

- risk managers gained some crisis experience concerning external risks during the financial and economic crisis of 2007-2009
- but: risk information not fully captured in financial reporting (e.g. Magnan & Makarian, 2011, Maingot et al., 2012), managerial reporting (e.g. Kirkpatrick, 2009) and incentive systems, too much focus on complex risk models and risk calculations and the auditability of ERM systems (e.g. Power, 2009)
- ERM as a dynamic capability in crisis circumstances?
- First empirical support, but contribution of risk manager not understood: "simply installing ERM systems do not inoculate firms from crisis" (Nair et al., 2014, p. 564; see also Bailey, 2019)

Prior research III/III

ERM as a dynamic capability?

- a firm's systems, processes, and routines to develop, integrate, and reconfigure internal and external resources and competences necessary for competitive advantages and long-term success (e.g. Teece et al., 1997; see also Eisenhardt & Martin, 2000)
- A dynamic capability involves sensing opportunities and threats in the environment (Teece, 2007, p. 1319)
- identifiable, specific patterns, routines and processes
- integrated clusters spanning individuals and groups so that they enable distinctive activities to be performed (Teece et al., 1997)
- Functions a) information b) coordination/integration c) learning, d) reconfiguration e) delivery (Schilke et al., 2018)

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Methodology I/II

- 28 semi-structured expert interviews with risk managers via Skype or Zoom from Swiss and German firms between June and August 2020
- similarities in the relevance of ERM and differences in the corporate governance regulations
- heterogeneous spectrum of firms from different industries, of different sizes, different degrees of internationalization, and relevant legal requirements concerning their ERM
- interviews lasted 45 minutes on average, were recorded and transcribed
- interview structure: organizational integration of the ERM function, effects of Covid 19 on companies, the ERM function and the risk manager as a person and an outlook (see appendix)

Methodology II/II

Two stage content analysis (mixed method-approach) via MAXQDA

1. quantitative and qualitative content analysis

- Change of tasks during the crisis? (yes/no, which tasks?, in how far?)
- Change of authorization or cooperation during the crisis?
- Contribution to crisis management? (yes/no, which contribution?)
- Risk manager as crisis manager? (yes/no)
- Influence factors

2. qualitative content analysis

- ERM as a dynamic capability? (Which processes and routines? Which functions ? Which impact?)
- Influence factors

Agenda

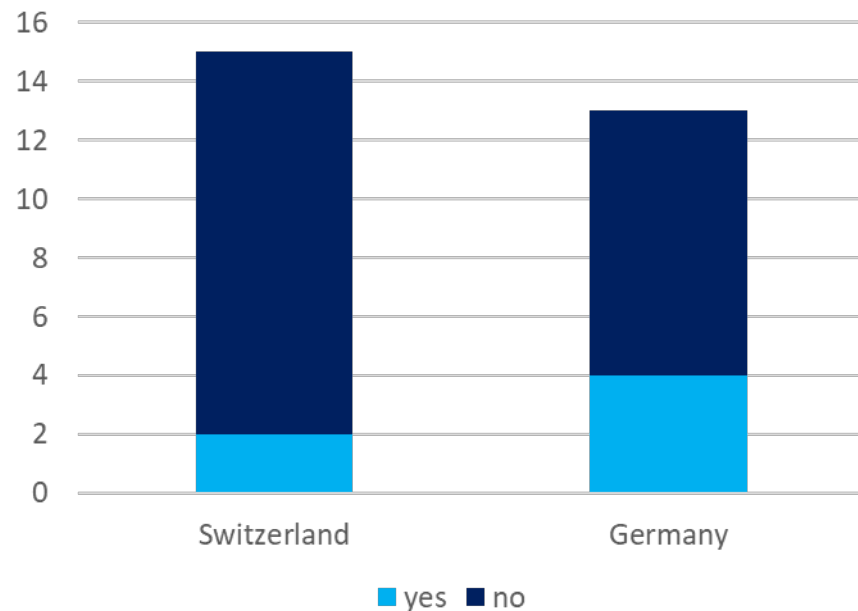
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Findings I/V

▪ Change of tasks and roles during the crisis

Role of risk manager unchanged

Change of role?



Partly change of tasks

- More reporting
- More scenario development and risk analysis
- BCM and crisis management as new task
- If risk manager = crisis manager, reduction of routine tasks
- 1/3 no change of tasks at all

Findings II/V

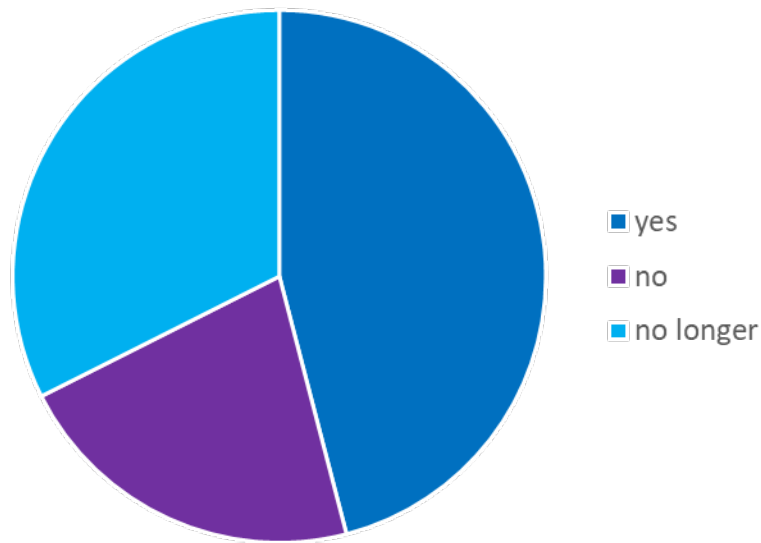
- **Change of co-operation or authorization during the crisis**
 - Almost no change in formal co-operation of risk managers
 - In three German firms: formal authorization of risk managers as crisis managers by board of directors
 - Almost no stronger formal involvement in decision making but partly more recommendations required
 - Partly intensified informal co-operation with board of directors, supervisory board (Switzerland) or within the finance department
 - For 1/3 no changes at all

Findings III/V

▪ Contribution to crisis management:

COVID 19 not a Black Swan !

epidemics/pandemics risk
included in risk inventory?



Identification of follow-up risks

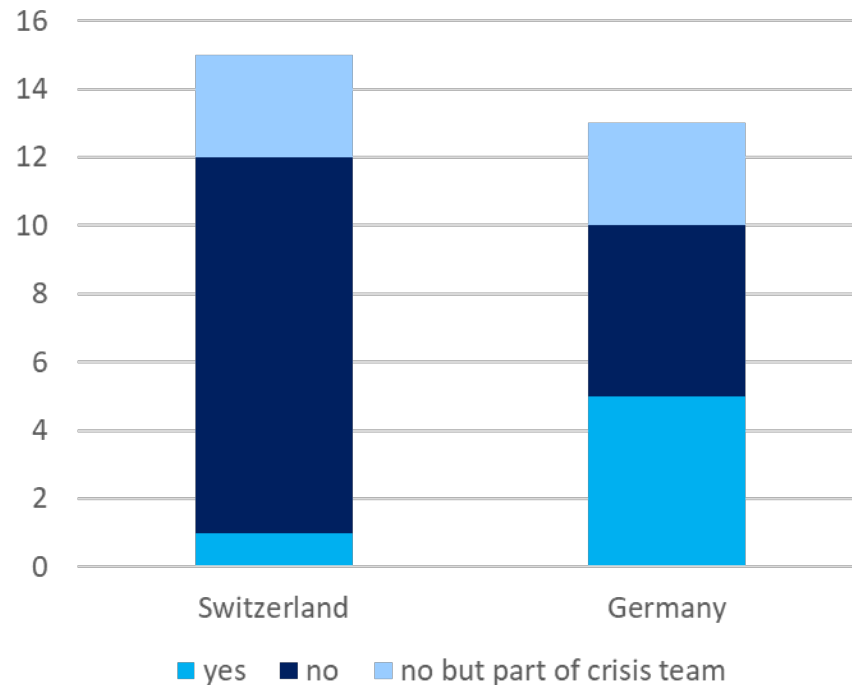
- e.g. macro-economic risks, loss/non-availability of key staff, interruption of supply chain, bankruptcy of suppliers or customers, cyber/IT-risks
- Threat of business-model
- Highly dependent of firm-specific situation
- Not all firms discuss follow-up risks

Findings IV/V

▪ Contribution to crisis management:

Risk manager = crisis manager?

contributions



- Information
- Co-ordination if engaged in crisis management
- Learning (follow-up risks and scenario analysis)

Findings V/V

- **Learnings from the crisis**

- Improved management awareness for rare but disastrous event risks and risk interdependencies and higher acceptance of scenario analysis
- Partly higher acceptance of risk manager and ERM
- Doubts concerning the sustainability of these effects
- No additional investments in ERM planned
- Emergency plans and BCM necessary

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Discussions and limitations I/II

- Formal roles and duties of risk managers have remained mainly unchanged during the COVID 19-crisis
- Majority of risk managers contribute to their firm's crisis management, but large variation
- No stronger contribution of Swiss firms due to their more direct connection to the supervisory board
- 1/3 of risk managers are not involved in crisis management at all => ERM as dynamic capability?
- Risk manager = crisis manager?

Discussions and limitations II/II

- Analysis of influence factors and qualitative content analysis of ERM as a dynamic capability still lacking
- Typical shortcomings of qualitative research: lack of representativeness of results and danger of subjectivity

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Appendix: Structure of Interview Guide

Question block 1: organizational integration	<ul style="list-style-type: none">• organization within the company• Department size• Number of employees• Importance of RM in the company• communication and reporting channels
Question block 2: impact of Covid 19 on firm and ERM function	<ul style="list-style-type: none">• Pandemic recorded as a risk• preventive and reactive measures• Affected by the crisis• Follow-up risks
Question block 3: impact of Covid 19 on risk manager	<ul style="list-style-type: none">• Role and tasks of the risk manager• Skills and competences• Cooperation within the company• Expectations of the supervisory board and management
Question block 4: forecast	<ul style="list-style-type: none">• sustainable changes• learnings• Boom of the RM profession

Appendix: Content Analysis

- **Quantitative and qualitative content analysis**

- Develop standardized code system (code book, coding instructions and anchoring examples)
- Apply code system (pretest)
- Check coding by second coder and revise code system
- Coding by 1. coder, check 2. coder (coding reliability)

- **Qualitative content analysis (planned)**

- Mark relevant quotations in each interview
- Compare quotations between interviews
- Derive abstract categories via discussion

Appendix: Adapted Organizing Framework of Dynamic capabilities (Back-up)

Antecedents

- Organizational factors
- Individual/team factors
- Environmental factors

Dynamic capabilities

- ERM processes, routines and patterns
- Routinization: Routine- / heuristics-based
- Formalization

Mechanisms

- Information
- Coordination/ integration
- Learning
- Reconfiguration
- Delivery

Consequences

- Change/adaption (individual, firm)
- Performance, e.g. survival
- Organisational resilience

Source: Adapted from Schilke et al. (2018), p. 402.