Hochschule
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Business Administration /
Human Resource Management

Hidden Obstacles to Effective Risk Governance

October 10, 2024 / Prof. Dr. Roman Bechtel

Introduction
Research Question and Approach

- In connection with business management, “risk governance” is still a relatively new subject:

» In a corporate context, risk governance has not yet been firmly established. «

(*Stein/Wiedemann* 2016, 815)

- This is a surprise, given its constitutive elements
  – “(enterprise) risk management”,
  – “(good) corporate governance”
  are by no means new.
- Why is it that the systematic spread of risk governance seems to be comparatively low in business practice?

- Heuristic: Deriving justification patterns for this initial observation (“hidden obstacles”?) in a two-stage, escalating procedure.

First Attempt

- As a relatively new phenomenon, risk governance will hardly be encountered in the reality of business under this label.
- Its empirical identification only seems promising via its two older phenomenological constituents in isolation.
- Organizational analysis (based on the perspectives suggested by *Scholz* 2000), using exemplary imaginary practitioner quotes.

“Why **don’t** you apply Risk Management or Corporate Governance in your company?”

Strategic

“What I don’t know doesn’t bother me. Let’s stick to our don’t ask, don’t tell policy – and not spend money on this.”

Mechanical

“Whose job is it actually: Legal’s or rather Internal Audit’s?”

Organic

“Risks often develop slowly and imperceptibly: under the radar. And by the way: Isn’t this why we had implemented SOX / CSR / BSC / … ?”

Cultural

“Yet another fancy topic? I thought this was for banks only.”

Intelligent

“Transparency would reduce our freedom of action way too much!”

Virtual

“How can you even control this in the age of AI?”

First Attempt
Interim Conclusion

Risk management and corporate governance

- are actually rather imperfect,
- often happen relatively unconscious,
- tend to be unsystematic, even in the banking industry (*Stein/Wiedemann* 2018).

However,

- the adversities identified are not new per se,
- they would be comparatively easy to solve.

- The objections, concerns and issues raised have a detrimental effect on the efficiency of implementing and applying related measures.
- But these barriers cannot generally be considered insurmountable.
- Finding: They explain a degree of inefficiency, but not a true lack of risk governance in the corporate world.

Second Attempt
Starting Point

So again:

- Why is it that the systematic spread of risk governance seems to be comparatively low in business practice?

» As of yet, risk governance is anything but clear-cut, especially in respect to business and industry. It lacks rigor in the sense of exactitude and demarcation to related constructs. «

(*Stein/Wiedemann* 2016, 816)

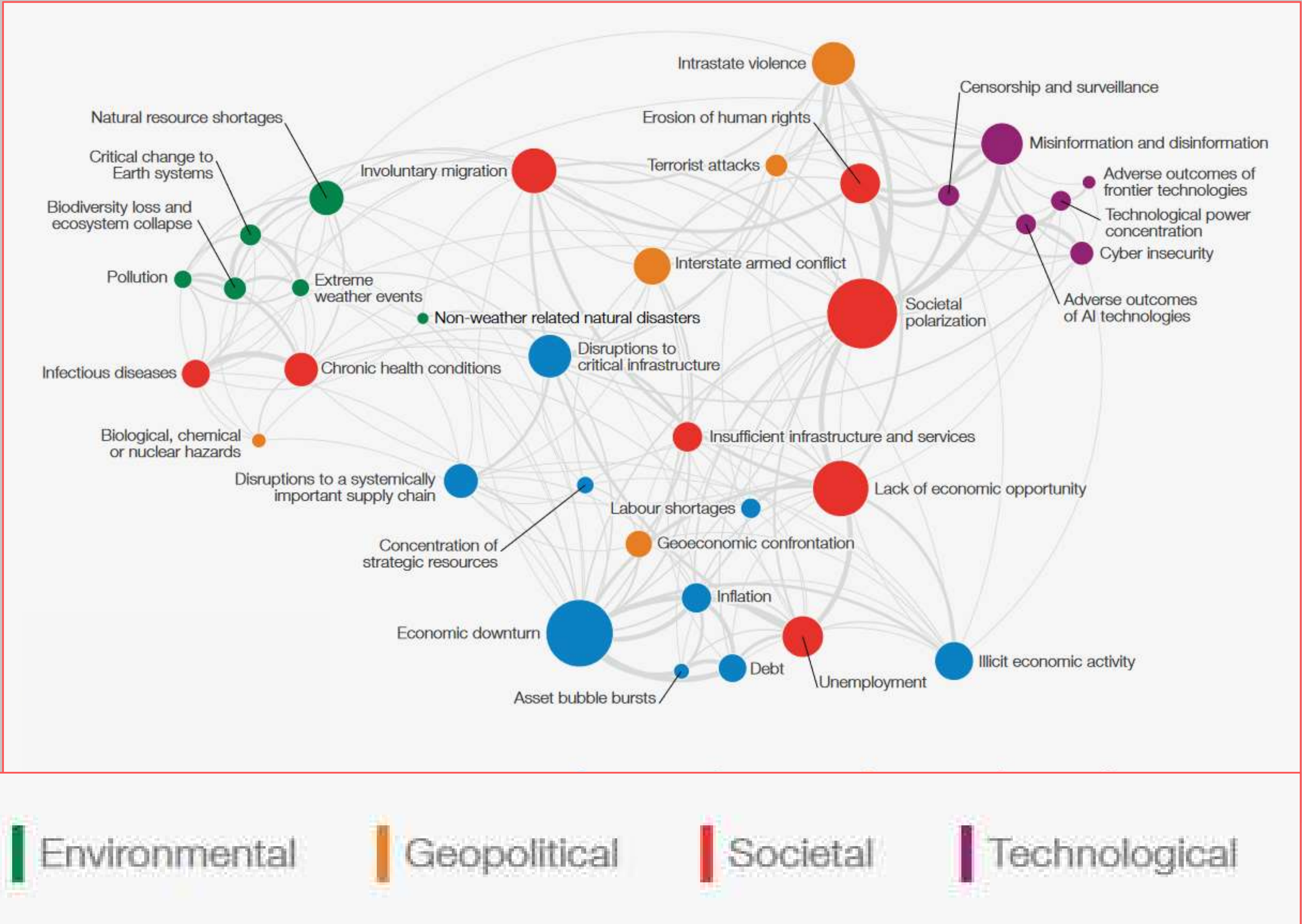
Revised procedure:

- Begin with a substantiated clarification of the phenomenon of risk governance in its original context.

Second Attempt
Global Risks Landscape

Risk governance has its origins in strategic policy advice (e.g., *IRGC* 2019); focus on

- often insidious,
- barely perceptible,
- slow-moving,
- uncertain,
- complex,
- ambiguous macro developments
- that have the potential to fundamentally threaten the system.



Risk Governance
… in a Business Context

Company @ Risk!

Key characteristics of risk governance:

- all about existential survival risks;
- concerns procedures that can endanger the business model and thus the substance of a company;
- addresses the economic viability and the continued existence of a company.

Interim Thought

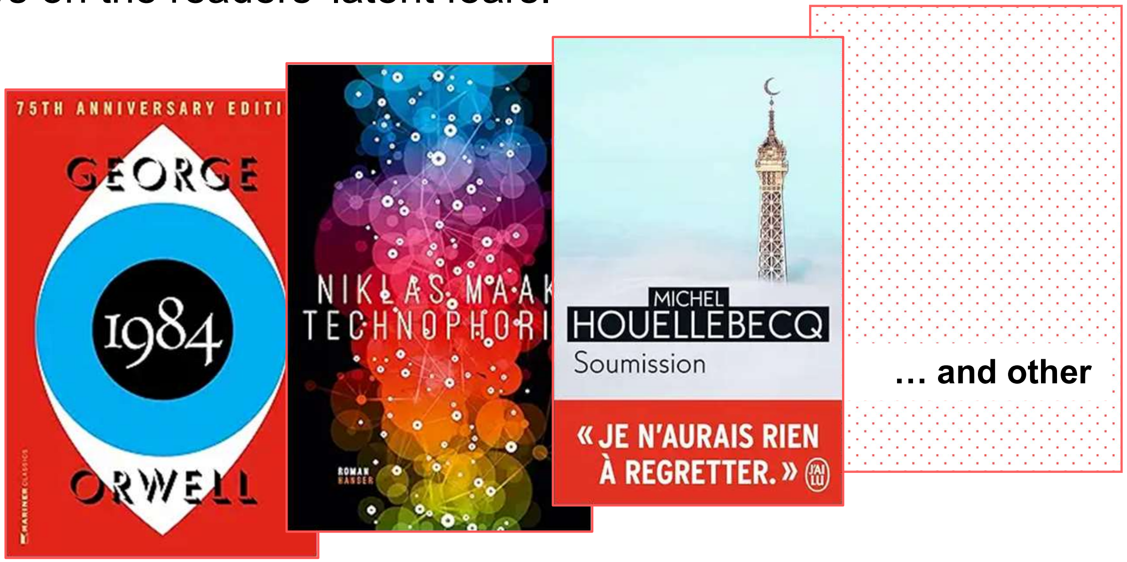
Characteristics of future risks:

- have negative side effects;
- cannot be precisely predicted;
- reveal concrete vulnerabilities;
- are truly life-threatening.

Doesn’t that remind you of …

a Dystopia?

- Compiling a plot that is a realistic negative scenario,
- the author of speculative fiction is the bearer of an ominous future perspective
- who plays on the readers’ latent fears.



- And what is this like in “real life”?

Risk Governance in Companies
Five Mini Cases: “A Question of Survival”

1. **Operational deficiencies:**
   The next inspection by the supervisory authorities at the *automotive supplier A* will reveal glaring weaknesses in their quality standards; management knows, the employees are whispering behind closed doors and the closure of operations is probably only a matter of time.

2. **Collapse in demand:**
   The *contract manufacturer B* is still enjoying full order books, but they know that it is only a matter of time before their current product is swept out of the market overnight by the next innovation in the pipeline; no follow-up orders in sight.

3. **Investment backlog:**
   Company C has failed to invest in R&D for several years and has instead skimmed off comfortable profits; but suddenly it is too late to catch up and the end of competitiveness looms inevitable.

4. **Technology lag:**
   The production facilities of *factory D*, which is still doing great today, are hopelessly outdated; within a few years, profitable production will no longer be possible.

5. **Loss of know-how:**
   The *industry leader E* is suffering from the progressive erosion of its innovative and competitive difference; only a few more years and the competitors in the Far East will overtake them with their imitations.

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Leading question: When it comes to future risks …
Who addresses what to whom, why or for what purpose, when and how?

Operational Deficiencies
Automotive Supplier A

- **Case 1:** The next inspection by the supervisory authorities at the *automotive supplier A* will reveal glaring weaknesses in their quality standards; management knows, the employees are whispering behind closed doors and the closure of operations is probably only a matter of time.

"People" (who to whom?):

- Self-isolation: If the management does not assign risk governance, this creates a paradoxical situation in which the company's interest in survival is pushed out of the focus of those actually responsible for it. Two forms:
  - Certain topics may be unconsciously ignored because what must not be, cannot be (= management failure);
  - others consciously, because nobody likes to saw off the branch they are sitting on (= abuse of power).
- Taboo to question the actions of certain actors, such as the board of directors or the company patriarch.

Collapse in Demand
Contract Manufacturer B

- **Case 2:** The *contract manufacturer B* is still enjoying full order books, but they know that it is only a matter of time before their current product is swept out of the market overnight by the next innovation in the pipeline; no follow-up orders in sight.

“Contents” (what?):

- Questions of conscience and ethics: Dealing with possible future risks is pretty much revealing and therefore frowned upon because risk governance is primarily aimed at the business model; this ultimately calls into question the whole economic concept of the company itself and refers to the personal responsibility of those involved.
- Taboo to name fundamental economic risks as such.

Investment Backlog
Company C

- **Case 3:** *Company C* has failed to invest in R&D for several years and has instead skimmed off comfortable profits; but suddenly it is too late to catch up and the end of competitiveness looms inevitable.

"Motives and cultures" (why / what for?):

- Individual interests: What is desirable for some, may be condemnable for others.
- Organizational micropolitics: Methods, tactics, and tools to establish almost insurmountable hurdles that shape the possibilities and limits of risk governance (formation of camps, opposition, lobbying, pressure to form opinions, and creation of myths); creates a climate that puts critical minds in their place:
  - "It's always been like this."
  - "It's never been like this."
  - "Anyone could come along."
- Taboo to raise unpleasant topics (and anyone who dares to do so will have to ask themselves why they are doing so).

Technology Lag
Factory D

- **Case 4:** The production facilities of *factory D*, which is still doing great today, are hopelessly outdated; within a few years, profitable production will no longer be possible.

“Timing” (when?):

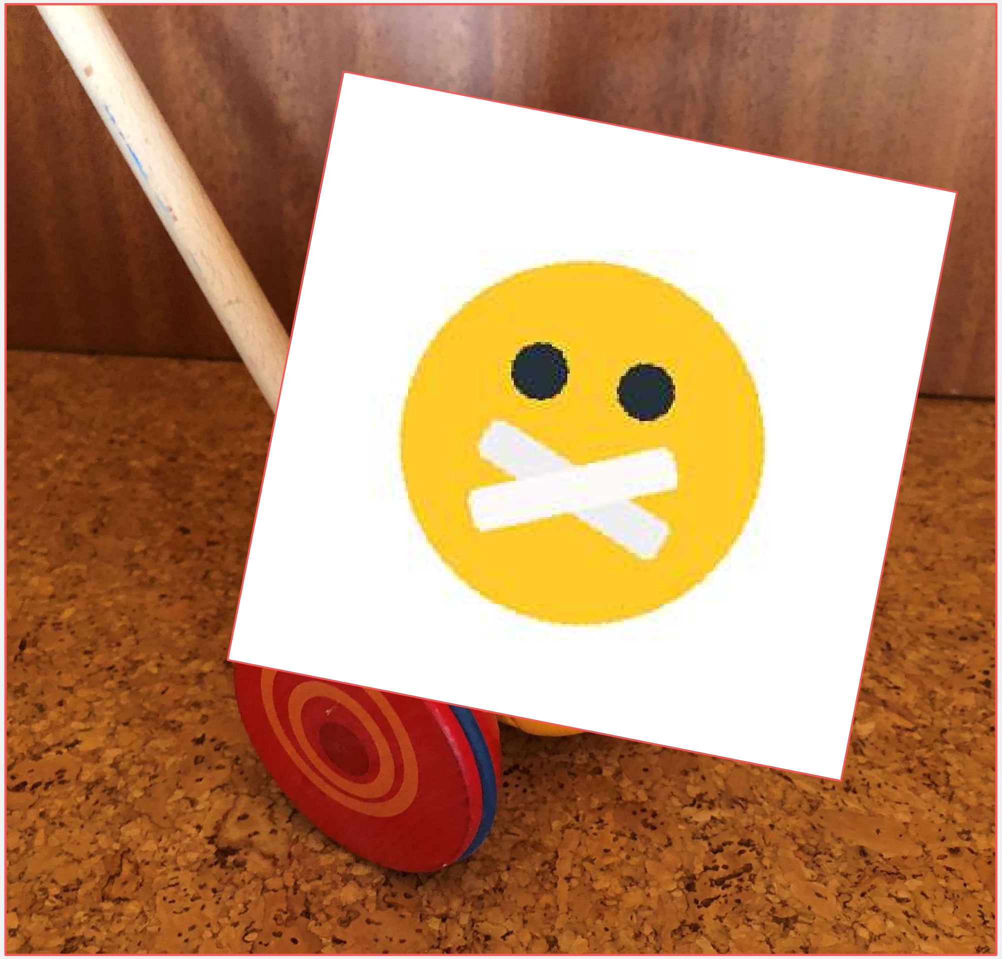
- Right time: Risk governance brings with it an inherent dilemma regarding when to become active. Three scenarios:
  - If the negative consequences of risks already occur, developing and implementing countermeasures may come too late.
  - If it is still possible to ignore risks instead of addressing them, it is dangerous to come out of hiding too early.
  - If a situation that threatens survival is already at the door (risk of insolvency!), the danger of a self-fulfilling prophecy is evident.
- Taboo to address risks at the “wrong” time.

Loss of Know-how
Industry Leader E

- **Case 5:** The *industry leader E* is suffering from the progressive erosion of its innovative and competitive difference; only a few more years and the competitors in the Far East will overtake them with their imitations.

"Style" (how?):

- Framework conditions: Risk governance would typically be impacted by various hard and soft factors limiting the exchange of information; these are:
  - Expertise to identify and assess risks at all;
  - technical / procedural infrastructure (communication channels);
  - false (?) consideration, misguided loyalty, and premature obedience;
  - words and tone of the message (especially in emotional situations).
- Taboo to state the facts in an unvarnished and ruthless manner.



Conclusion

- Vital business risks affecting the existence of a company are afflicted with taboos that cause resistance.
- Taboos shape perception, awareness, and ultimately reality, often without the people involved even being aware of the scope and impact of the taboo situation.
- In an environment presumably dominated by rational actors, this can lead to a ban on discourse, and thus may explain why risk governance effectively remains ignored in practice as a non-issue.
- Preliminary conclusion: Taboos – serving as hidden obstacles – tend to make it impossible to address elementary business risks which can have disastrous economic consequences.

Risk Governance?

» **Taboo** is an invisible but all the more effective protective shield for everything that is subject to it or is subjected to it. Violating it is considered an outrage. «

(*Brockhaus* 2006, 798; translated)

Limitations & Recommendations

- Just a little “food for thought”.
  - Something that is not done for taboo reasons is naturally difficult to assess (i.e., operationalization).
  - The mental construct developed in two stages (“attempts”) is based on logical deduction, instrumentalizing experience instead of empirical data: imaginary practitioner quotes and made-up mini cases as references require empirical testing.

- Impetus for future development:
  - Research: Can the assumed existence of taboos in the context of risk governance be empirically confirmed?
  - Business practice: What strategies can be developed to overcome the taboo problem?

  How can one break the taboo around risk governance?

References

Note: This presentation is a revised version of

- *Bechtel, Roman* (2022): Verborgene Hindernisse effektiver Risikosteuerung, in: *Wiedemann, Arnd/Stein, Volker/Fonseca, Mark* (eds.): Risk Governance in Organizations: Future Perspectives, Siegen, 43-55.

Design elements:

- Slide 8 (book covers): https://www.amazon.com/, download: September 23, 2024.
- Slides 9-14 (various photos): private.
- Slides 10-15 (emoticon): https://pixabay.com/de/vectors/emojis-emoji-hipster-lustig-4518355/, download: May 24, 2024.
- [Slide 20 / appendix (iceberg): https://www.pexels.com/de-de/suche/Eisberg/, download: June 25, 2024.]
- [Slide 22 / appendix (photo): private.]

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- *Brockhaus* (2006): Enzyklopädie, Volume 26: SPOT-TALA, Leipzig/Mannheim, 21st edition.
- *IRGC – International Risk Governance Council* (2019): What do we mean by "risk governance"?, https://irgc.org/risk-governance/what-is-risk-governance/, download: September 24, 2024.
- *Scholz, Christian* (2000): Strategische Organisation: Multiperspektivität und Virtualität, Landsberg am Lech, 2nd edition.
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- *World Economic Forum* (2024): The Global Risks Report 2024. 19th edition, Cologny/Geneva.

Thank you

Let’s discuss

Appendix

Risk Governance
… in Business Reality

90% below the water surface:
Invisible, but present!

- Visible part of the iceberg: subject to classical risk management and corporate governance (audits, CSR reporting, Code of conduct, SOX regulations, ERM, etc.).
- Invisible part below the water surface: the actual substance that would be covered by risk governance (where the hidden obstacles come into play).

Summary

- Given its strategic nature, risk governance deals with events that have the potential to threaten a company's business model, its substance and ultimately its economic sustainability.
- Although managing risk governance and dealing with related risks is a matter of survival, many companies don't seem to address it.
- **Why not?**

Company @ Risk!

- Paralyzing fear: conscious blinding out as a psychological effect.
- Total overload: no resources, no competencies, no tools.
- Creeping development: trends slowly adding up to becoming real problems.
- Head-in-the-sand mentality: High costs and too much effort.

- (Not understood: strategic blind spot.)
- (Underestimated: overlooking criticality and need for action.)
- **Sacred cows, outrage, and taboo: Who dares to bring up the painful issues and bad news (why, when, how)?**

Halfhearted,
inefficient Risk Governance.

Ignored,
ineffective, if not even inexistent Risk Governance.

Prof. Dr. Roman Bechtel
Short Résumé

- **1996-2006: Diploma and doctoral studies** of Business Administration in Saarbruecken (Germany) and Dublin (Ireland)
- **2001-2005: Research Assistant** at Saarland University, Saarbruecken (with academic focus on monetary human capital calculation)
- **2005-2016: HR Generalist, HR Business Partner** and other HR roles in various semiconductor companies in Munich (Germany), incl. Infineon Technologies and Intel Corporation (with focus on HR quality, outsourcing, projects)
- **2016-2023: VP and Global Head of HR Operations**, in charge of HRIS (10,000 users) and global payroll (30+ countries) at Ascensia Diabetes Care (medical devices) in Basel (Switzerland)
- **Since 2023: Professor for HRM**, esp. People Analytics, Performance Management, and Compensation & Benefits at Munich University of Applied Sciences