

The pathways to success!

Risk-based decision making

In the final chapter I will discuss the ultimate skill you will need to help you be successful: the power of persuasion. Before I do so, in this penultimate chapter I want to show you the pathways you may need to take to reach the point where you can say to yourself, 'I believe I have done it. Success!'

'Risk-based decision making', at first glance, seems a pretty straightforward idea. A decision maker who weighs the pros and cons of a decision before making it. It only takes a moment's thought to see how complex it really is. How likely are the pros? How likely are the cons? Could the pros or the cons be

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much greater or worse than I have first considered? Now ponder these issues further.

What might influence me when identifying and assessing the pros and cons? Do I lack knowledge? Where and from whom might I derive this knowledge? Will I listen to the right people? What will I hear and what will fall on deaf ears? How might my unconscious biases ultimately affect me?

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How far and wide should my research extend when I consider the pros and cons? Does my world stop at the front door of the building? Does it extend to my customers, beyond a simple 'take it or leave it' equation? What obligation do I have to investors? And what of the general public? Do I consider some of the public more or less than others in my decision making? If you are a politician or government official, you will have very broad responsibilities. The prime minister or president of a nation is, or should be, taking into account all of the population when making decisions of national interest. Decisions like where the budget is allocated and whether the budget needs to be in the black or whether and when a deficit may be legitimate. These considerations extend beyond national boundaries, which is why wealthier countries come to the aid of other countries when crisis hits. Why? To pursue our national interests, yes, but also to honour — to live — our values.

I started this book with a description of risk management through recent decades and a view of risk management in the 2020s, the decade of accountability, influence and risk leadership. I suggested that business leaders will be applying risk-based decision making as they choose what risks to take and which not to. I proposed that by following risk-based decision making they will be aware of and managing their unconscious bias. And I expressed the need for leaders who are true to organisational values. But how to get them there?

The pathways

When I think about strong risk leadership in an organisation, I think of strong risk leaders working alongside strong business leaders, each leading alongside the other, the business leader taking the risks and the risk leader helping them to think through their decisions. Unfortunately, I rarely hear about this, let alone see it. One reason is that I work with organisations that need help because they are not at the top of their game. The other is, I believe, because it is rarely found. I am often asked which company in Australia does

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it best. I don't have a good answer. The answer I often give is Macquarie Group, but even they have been subject to both negative press and the influence of regulation that distorts risk advising and risk-taking. Let me explain.

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There are lots of organisations in Australia making plenty of money that one could place on a pedestal for one reason or another but that fail when it comes to risk leadership. As I noted in the introduction, BHP Billiton has made shareholders plenty of money. In the five years from January 2011 to late 2015 its average share price was above \$30. In November 2015 the Mariana mine disaster hit and the share price fell to a low of about \$15 in January 2016. It took them most of 2016 to recover the ground lost. Since then they have implemented a risk transformation project and their share price has climbed steadily. When I have spoken to risk leaders within the company, however, they have dared not claim they have reached the pinnacle of success. Anthony Reardon, from BHP, was the RMIA Risk Manager of the Year in 2018, in no small part because of his work on the transformation he helped lead. However, during the talks he gave to the RMIA chapters across the country, he left no one in any doubt about how much work was left to be done.

Then there are the banks. They make a lot of money. And

while the Royal Commission in Australia has hurt Australian banks, it is only a speed bump along their profit highway. Yet the evidence of the failings of executives, unmoved by the influence of the risk professionals in the organisation, is superlatively documented in the APRA report into the CBA and in the transcripts and final report of the Royal Commission.

But what of Macquarie Group? They fared well at the Royal Commission yet they too have had their scandals, as headlined by *The New Daily* in May 2018, the *Financial Review* in July 2018 and *Small Caps* in November 2018.²⁷ The *Small Caps* article highlights one of Macquarie's greatest strengths. They hold their senior decision-makers to account. While the larger banks pay bigger base salaries and smaller bonuses, Macquarie pay smaller base salaries and large bonuses. Another difference: while the large banks can't claw back bonuses, Macquarie pays out bonuses over a number of years. And, you guessed it, bonuses can be adjusted if there are problems with profit or with the regulator.

Macquarie's strength in holding executives accountable is not the only reason I hold them out as one of the shining lights. For many, many years they have had a risk function that asks the hard questions. Executives cannot simply make a call. They have hoops to jump through. In the vernacular of the Three Lines Model of risk management, they provide plenty of challenge.

Why my reluctance then to crown Macquarie as the golden

child of how risk should play out? One reason is obviously that they are not scandal-free. Another is I simply don't know as I have not worked with them. A third reason is uncertainty as to what will happen in Macquarie bank given the new demands of regulators post the Royal Commission. Remember my comments on the influence of regulators:

Regulators demand red tape. The risk function creates the red tape. And the business spends the rest of the time trying to avoid the red tape.

Here we have successful companies like BHP and Macquarie that are good at risk management but evidently are not fully there yet. What, then, of the pathways? Refer to figure 11.1.

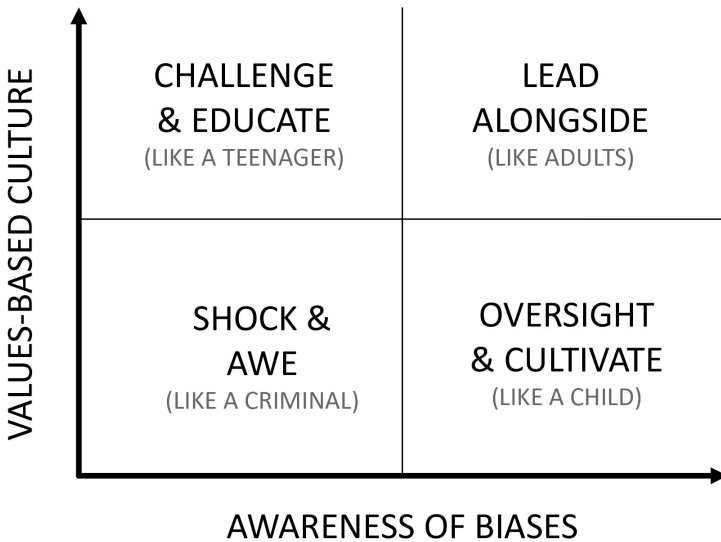


Figure 11.1: Risk leadership

Leading alongside

The pinnacle of success is represented at the top right of the diagram, where risk leaders lead alongside business leaders. Like an adult friend advising on a decision, it is when business leaders work with risk leaders to ensure they are making decisions in full consideration of organisational values and having done their best to overcome their unconscious biases. If you are not there with your leadership team, then you will be starting from one of the other quadrants. Each requires a different approach.

Shock and Awe

If your organisation has leaders who are consistently making decisions that do not conform with your organisation's declared values and who lack awareness of the unconscious biases that affect their decision making, then your job will be a tough one. Some shock and awe will be required — shocks, hopefully, you can generate through strong analysis and personal influence, not by waiting for organisational calamities. I use the analogy 'Like a Criminal', though I recognise that for most it is over the top. Yet executives have been sent to jail and plenty more have been lucky not to be. If you are at all familiar with police tactics, they will often use shock and awe with

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people who come into contact with them for the first time for the wrong reasons. It is about 'heading them off at the pass' to reduce the likelihood of future crime.

Oversight and Cultivate

A little easier is when your leaders are in the main, aware of their unconscious biases and are letting themselves down by not living true to organisational values. Here the board or senior executive will need you to provide oversight with close support until you and they are able to cultivate a strong, values-based culture.

You must use your influencing skills to remind leaders constantly how their decisions align or fail to align with the organisation's values. But here is a tip. No one, but no one on the planet, likes to be 'oversighted'. So call it something else. Maybe express your role as custodians of all stakeholders helping to seek a balance between customer, regulation and profit. By all means provide the oversight the board needs, just don't call it that!

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Challenge and Educate

Similar but different is when your leaders are doing their best to fulfil the organisational purpose while holding true to the organisation's values, but lack awareness of their

unconscious biases. Here the board or senior executive will need you to use your influencing skills to subtly challenge decisions where you see fit. More importantly, your role is to educate them about bias. And another tip. People often say they like to be challenged by their direct reports or by internal advisers. However, as already noted, most people like to be challenged only when they are proven right! Again, call it something else. Perhaps compare your role to that of the insights team from marketing, only you are providing insights across the whole breadth of their decision-making landscape.

There you have it. There are three pathways to success for you and your organisation. One is tackling unconscious bias. Another is shifting and instilling strong organisational values in decision making. The third is standing with one foot on each path and hurtling your way up the middle. All are challenging. All need the gift of influence. The power of persuasion. Which is the subject of the final chapter.

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