



## Governance, Risk, Reputation and Decision Making

2017, whilst busy politically with Brexit, was also a year where governance, risk and reputation regularly made the headlines. Here is a collection of our blogs that addressed some of these issues.

### Diagnosing and Future Proofing Governance and Risk Management Issues

The CRSA Forum exists to share and improve understanding on the people aspects of governance and risk management. It met in December 2016 to consider why corporate governance and risk management have failed to prevent frauds and financial crises.

Peter Bebb of Perendie began by reminding us of recent corporate collapses and corporate wrong doing including mis-selling, fraud, rogue trading, poor controls over corporate assets resulting in security breaches and loss of physical assets and oil spills, and failure of care in the NHS and the reputation damage resulting from these incidents.

Corporate governance and risk management don't take human factors, such as incentives and how we make decisions, into account. Governance and risk management reports were seen as backward looking and obscured by detail. They don't support decision-making, tell you whether rules are being followed or are likely to be followed or how the organisation will perform in future.

#### Causes of failure of governance

In small groups we reflected on the causes and Tweeted our opinions of the causes of failure. We then voted on which were the most important.

1. Recognising & agreeing risk plus complexity of risk
2. Personal interest and lack of personal responsibility on individual board members
3. Lack of transparency or ethics
4. Lack of appropriate personal responsibility (**Most important**)
5. Short term targets, over long term culture (**3rd choice**)
6. Poor ethics and accountability at the top
7. Board clarity & accountability
8. Governance is very challenging in an ever changing world
9. lack of protection of whistleblower, rule breakers don't often lose out (**2nd choice**)
10. Not just the rules, culture too

One group talked about the need for individual and shared responsibility within an organisation and how their lack has contributed to governance failures. Organisation should be set up so that individuals are treated as responsible adults where relationships are built on trust rather than control.



## Areas for action

We Tweeted our suggestions for action and then voted on which were most important. These were:

1. Culture and values (**Most important**)
2. Clarity of purpose, enabling appropriate behaviour (**3rd choice**)
3. Individuals understanding what is expected
4. Recognising & agreeing risk plus complexity of risk
5. Create an international body who is able to hold the board to account
6. Accountability & audit design
7. Culture change – incentivise not penalise (**2nd choice**)

Gill Ringland, CEO of SAMI Consulting, led the meeting in exploring the future role and challenges for governance and risk management using four scenarios for 2040.

The slide features the SAMI Consulting logo and tagline 'Robust decisions in uncertain times' at the top. The main title is 'Background to the scenarios' in red. The content is organized into a list of bullet points on the left and a central image of a report cover on the right. The report cover is titled 'In Safe Hands? The Future of Financial Services' and shows a world map with various colored markers. Logos for C3 and Financial Centre Futures are visible at the bottom of the cover. A small number '3' is located at the bottom right of the slide.

SAMI Consulting | Robust decisions in uncertain times

## Background to the scenarios

- Project to create rounded views of the future of financial services
  - Supported by Long Finance community, [www.longfinance.net](http://www.longfinance.net)
- Scenarios developed by SAMI
  - Fleshed out and tested through open events at London Guildhall and Barnard's Inn
  - Drafts of the report critiqued by Long Finance Kitchen Cabinet
- Report published in 2012

In Safe Hands? The Future of Financial Services

Financial Centre Futures 4-2011

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The 'Second Hand' scenario is the most similar to today and has developed as a result of the changes above without any significant disruption or systemic change. In 'Globalisation' the main change would be the increased importance of virtual (web based) connections with less significance given to geographical place. In 'City Societies' cities become wealth clusters or brands, nation states fail and democracy, capitalism and western values compete with other organising concepts within different cities. In 'Affinity Groups' society has re-formed around affinity groups; multiple value systems are accommodated in a single geography. In this scenario, London could become 20 or 30 ethnically diverse clusters, all globally linked more strongly than their local interactions.

We considered the scenarios in groups. The *Globalisation group* considered that virtual working would mean more isolation. Traditional management and governance controls may not work if people did not know what others were doing creating problems with lack of accountability and responsibility. Alternatively virtual working could make it easier for corporations to control staff, with unseen but all seeing eyes knowing where staff are and what they are doing.



In the *Affinity Groups* scenario groupings could form around common languages, corporations and conceivably intelligence as in Aldous Huxley's *Brave New World*. Current concepts of control and responsibility may no longer be needed if people share a common purpose and culture, e.g. the current issue of formal incentives incentivising the wrong behaviours could be less if people have a common framework. However there could be rivalries e.g. between all-powerful big corporations (as one Affinity Group) and other groups.

A newspaper headline in *City Societies* might read 'London's per head wealth 10 times that of Birmingham' – there are winner and loser cities. International affinity groups, including corporations, would be more powerful. Staff in corporations would have different cultures in different cities or they may try to impose a common culture across all the cities where they have staff. There would need to be trade agreements between cities and some commonality in the legal systems. Cities would have good internal controls but there could be chaos externally. The more successful global cities might negotiate common frameworks benefitting all cities or they may benefit only themselves with other cities ultimately disintegrating or being taken over by other cities. Some cities may create armies to expand by conquest. Others would expand by succeeding in the market place.

People felt that a combination of *City Societies* and *Affinity Groups* could be quite likely.

So what should we do today? The future is unknowable but consideration of these scenarios could help us understand the world as it changes and spot what is happening earlier. The view of the room was to have capitalism with social responsibility and a shared sense of values and ethics. We should all try to view companies and the systems within which they operate from other perspectives looking down as if from a helicopter or observing it from distant vantage points, or from the eyes of different stakeholders. We should focus on purpose but beware people whose purpose is not socially benign.

### Some conclusions

- Globalisation, in some form, seems likely to continue in all four scenarios.
- Governance will need to embrace technology.
- In *City Societies* there must be accountability for leaders and transparency for cities and organisations.
- The importance of culture in governance is emphasised by *Affinity Groups*, governance structures need to reflect the values of diverse cultures.

### Notes

1. Gill Ringland's PowerPoint slides can be downloaded [here](#)
2. Peter Bebb's PowerPoint slides can be downloaded [here](#)
3. Slides showing participants Tweets and priorities [here](#)
4. More information about the CRSA Forum can be found at <http://www.crsaforum.com>
5. Join the CRSA Forum Linked In Group [here](#)
6. For further information or if you would like to attend future meetings contact [paulmoxey@crsaforum.com](mailto:paulmoxey@crsaforum.com)
7. The next meeting will be on Board Oversight of Risk

*Written by Paul Moxey, SAMI Fellow, Published January 25, 2017*



## Dealing with uncertainty

Uncertainty is very topical: research by the European Central Bank shows that 20% of market fluctuations are caused by uncertainty. In the UK one third of business owners admit that uncertainty ahead of Article 50 is their biggest concern. In Europe there is uncertainty over the outcome of elections this year in France, Holland and Germany. There is now even uncertainty about future cohesion of the member states of the EU as a trading bloc.

Add to this the uncertainty many Muslims feel about whether they will be welcome in the US under the new administration; plus the uncertainty British farmers feel about their future once EU farming subsidies are removed. The pound has fallen in value by 20% since the Brexit referendum, and food prices in the shops are beginning to rise. Producers, distributors and retailers having absorbed some of the increase to date, are finally passing it on to the consumer.

Our weekly shopping basket is beginning to feel expensive and families will buy less and switch products with inflation adding to our sense of un-affordability. Where does this leave the food supply chain for the EU and UK which have been inter-twined for over 40 years? How do you unbundle years of trade agreements on price controls, safety standards and quotas? The policy makers are no more certain about the future than the electorate; uncertainty 'trumps' all other worries.

### What is uncertainty?

The future is unknown and unknowable, yet we treat uncertainty in different ways. Sometimes we reduce uncertainty through analysis or calculation, sometimes through guesswork or intuition. Governments and corporations buy forecasts from market analysts, economists and sociologists look for cycles and patterns which indicate a probable future outcome. There are millions of people in the Far East who consider astrology, or planet alignment, to have some bearing on the future. Everyone wants a coping strategy going forward.

The question is not how to remove uncertainty but how to reduce it, that is what early maritime insurance underwriters recognised when Lloyds was established in London in the 1690s. The history of the risk industry is bound up with how we respond to fear of an unknown future and the value we put on security through certainty. Some types of uncertainty can be reduced through careful analysis of available information, some by acquisition of supplementary information. These are either 'known-knowns' or 'known-unknowns'.

Some types of uncertainty are harder to reduce as vital information remains unknown to us. We don't recognise the type of information we need although it probably exists, we just don't appreciate its relevance to our current dilemma, these are called 'unknown-knowns'. The final and most difficult type of uncertainty to deal with is one that we haven't even recognised yet. This falls beyond our comprehension and is not even identified as something we should know. A category Donald Rumsfeld succinctly called 'unknown-unknowns'.



## Dealing with uncertainty

To effectively reduce uncertainty we therefore need to recognise the appropriate cause of uncertainty and recognise where we need to focus attention to reduce uncertainty. The first type or 'known-knowns' just require a bit of analysis or interpretation of what we've already got. This is a kind of measurable uncertainty that can be reduced to an acceptable level of certainty.

The second type of uncertainty includes all 'known-unknowns'. These highlight knowledge gaps like missing jigsaw pieces. We know what we don't know in the sense that we appreciate and recognise the information needed to complete the picture, to provide insight necessary to make informed judgement. These missing pieces are known about although we don't yet have them; this is why the known-unknowns can most usefully be called 'jigsaw' uncertainty.

The third type of uncertainty incorporates 'unknown-knowns'. Here the uncertainty is caused because we fail to appreciate what is needed to complete the picture; this despite the existence of information to fill our knowledge gaps. The missing knowledge exists but we don't appreciate it or have looked in the wrong place, hence it remains unknown to us. Data from political, economic, social or technical sources exist, but we just haven't identified it as necessary.

The fourth type of uncertainty we call 'unknown-unknowns' are the uncertainties we don't even acknowledge. The risks that never appear on the risk register because we haven't even considered their possibility. Within this category lie many uncertainties that we don't need to consider, but some we ought to. The only way to contemplate these is to think 'outside the box' and imagine ourselves from a completely different perspective. These are the hardest to reconcile.

## Resolving problems

Uncertainty creates ambiguity and this creates problems for us. Keith Grint in his 2008 book 'Wicked problems and clumsy solutions' identified these three types. There are Tame problems which are answerable because a solution is attainable. There are Critical problems that require a leader to marshal resources necessary to solve the problem. Then there are Wicked problems.

Wicked problems are those where there is no answer, complex challenges that demand an enormous amount of resource and analytical competence to even begin to resolve. Much global uncertainty today falls into this category. Certainties on which two or three generations have relied are now no longer valid. What 'trumps' uncertainty ...better than anything? False certainty.... We need to learn how to live with risk without fear!

*Written by Garry Honey, Chiron Risk CEO and SAMI Associate, Published April 12, 2017*



## Two fascinating books on decision making

I have recently been thinking about how decisions are made, and thought it would be worth sharing some of what I have learnt from two books – Thinking Fast and Slow by Daniel Kahneman (2011) and The Undoing Project by Michael Lewis (2017).

Reading Thinking Fast and Slow by Daniel Kahneman will challenge your understanding of decision making. It is not an easy read – 500 pages of small print and dense text – but perseverance is worth it and after the first chapter or two you should get hooked by the revelations about how bad our brains can be when we make decisions. But it may be easier to start with Michael Lewis' latest book.

Michael Lewis, the author of The Big Short, Flash Boys and other books about the financial system, describes the work, background and the personal relationship of Kahneman and his late colleague and friend Amos Tversky. They were both Jewish children in WW2 and fought for Israel in Middle Eastern wars of the 1950s, 60s and 70s. They were also brilliant psychologists who early in their careers developed better ways for the Israeli military to select and train their forces. Later their work on Prospect Theory which amongst other things shows that people value gains less than equal losses led to a Nobel Prize in economics.

Lewis reveals their story about how these two very different people, one charismatic and outgoing the other quiet and withdrawn, worked together to give new insights into how we act and how we make decisions. They showed that people do not think statistically, wrongly find causality in unrelated events, are prone to over confidence and make poor decisions based on information readily available rather than looking for sufficient evidence. They showed that, contrary to economic wisdom, people do not always behave rationally and they can be credited with the development of the discipline of Behavioural Economics.

Lewis reveals enough of their academic insights to make you want to find out more. Kahneman's book gives the rest. He talks about their work which he links to other people's research on the same issues so providing a clear summary of the state of knowledge in 2011. The book is likely to make you question what you thought you knew and make you wish you knew what you have just learned when you were younger.

*Written by Paul Moxey, SAMI Fellow, published April 19, 2017*



## 5 learning points from United Airlines

The United Airlines story which caused reputational damage offers a number of reminders for any organisation providing a public service, whether state or privately owned.

### 1. Gonzo journalism –

Almost everyone owns a smart phone with a camera, so broadcasting a news story is now both democratised and unmoderated. Anything that can be recorded & disseminated on social media can act to influence public opinion. Where this impacts investors and shareholders it can drive down value, as both Charles Ratner and Oscar Munoz will testify.

### 2. Twittersphere travels –

Social media does not just democratise news broadcast, it enables visual stories to be rapidly dispersed to a global audience ignoring barriers of language. Over 3 million mentions in 48 hours signified the impact a viral video can have on everyone who sees it. It became a must-see, pass-on story proving the old adage that ‘only good news stays local’.

### 3. Reaction response –

Research shows that it takes an organisation an average of 21 hours to issue any meaningful external communications, during which time the story has already gained traction. Trial by twitter in a kangaroo court is not fair but it is reality. Issuing denials while not in control of the full facts often makes the situation worse, it is why specialist crisis handling agencies exist.

### 4. Legal limbo

Many corporations respect the advice of their lawyers or counsel urging caution before admitting liability for fear of subsequent claims. This might be financially prudent but is sometime ethically wrong. Good leadership relies on sound judgement and just occasionally you have to ignore the legal advice and act with common sense: it can be a tough call.

### 5. Factual focus –

Don't try to defend the indefensible, manage the crisis by understanding then resolving the problem itself. Focus on the cause to select a remedy, not on managing the story. This will split attention and resource so that you lose focus on what you are really trying to do. You put out a fire by depriving it of oxygen, not by telling everyone it doesn't exist.

Reputation is damaged when behaviour is demonstrably very different from the promise. Any service organisation that substantially disappoints customers or investors will suffer some damage. Recovery will usually be possible, but at a cost that could be avoided with better foresight.

*Written by Garry Honey, Chiron Risk CEO and SAMI Associate, published April 26, 2017*



## Training on bad decision making – are you serious?

You may think the last thing you need is training on what contributes to bad decisions. But in business, decision making is often done under time pressure without all the information required. Recognising some of the pitfalls allows us to challenge and improve decisions before they are implemented.

People are prone to all sorts of thinking and judgement errors including over confidence. We may take pride in our gut feeling, our intuitive understanding, our experience and skilful and insightful assessment of the current situation. Unfortunately we are often wrong. And that is before we start to think about how to get better at foresight – anticipating the future – for instance using Philip Tetlock and Dan Gardner's work Superforecasting: The Art and Science of Prediction.

Academic work by psychologists such as Kahneman and Tversky has shown just how bad we can be at making good decisions. We naturally reject uncertainty – partly because it makes us uncomfortable and partly it is how our brains work. We suffer from various cognitive biases; over one hundred types have been identified. Here are a few and they make us feel more certain than we should.

- We think we know what causes what and are confident we can see clear patterns when others see confusion. The danger is we attribute cause and effect to random events.
- We tend to think that what we see and hear is all the information there is and act without further assessment; in our optimism we may ignore any information which suggests an action may be unwise.
- When we do take note of other information we look for things which confirm our thinking and ignore anything that refutes it.
- A focus on one thing may occupy so much of our attention we miss something in clear view in front of us. Check out this [selective attention test](#) where observers fail to see a man in a gorilla suit walking through a group of ball players.
- When answering a complex question we may substitute a simpler one and answer that instead without being aware we have done it.
- We are naturally poor at estimating probabilities. Groups tend to make more risky decisions than individuals and groups can go along with a course of action they don't like because others seem to be going along with it. Diversity of people in a group and, more importantly, diversity of thinking should help reduce this particular bias.
- Most of us, particularly experts, tend to be over confident. Our biases can also be reflected in our speech and writing and that may be a poor influence of other people's decision making.
- Finally, we also suffer from bias blind spot meaning we see ourselves as less biased than others and think we are more in control than we are.

In short we can make bad decisions more easily than we may realise and expose ourselves, teams and organisations we work with to unnecessary risk.

It is possible to reduce our susceptibility to these common errors in thinking through training. SAMI Fellow Professor Paul Moxey has developed workshops for business leaders. They cover:





- The 12 key cognitive biases which cause bad decision making
- The Columbia Shuttle Disaster and other failures affected by cognitive bias
- How we can spot when a bias might cause a bad decision
- New ways of thinking that reduce susceptibility to bias
- Using bias free language
- Being more comfortable with uncertainty and working with it
- A practical process for eliminating bias errors
- Ten tips for boards

They are a companion to the 'Dealing with uncertainty' Workshop, and can also be run in-house with an organisation. For further information contact Prof Paul Moxey at [paul.moxey@samiconsulting.co.uk](mailto:paul.moxey@samiconsulting.co.uk)

*Written by Paul Moxey, SAMI Fellow, published May 3, 2017*



## Governance, risk and reporting

The UK Corporate Governance code, policed by the Financial Reporting Council has been revised several times since it first emerged. And in 2013 the Department of Business Innovation & Skills (BIS) was driving the agenda.

It felt that companies spent too much time reporting past success and not enough on forecasting future returns, so introduced the requirement for an explanation of business model including strategy and risk. This caused some complications for dual-listed corporations who had also to comply with the US regulator who took a different view. While the UK was encouraging corporations to talk openly and honestly about future risks, the US was much more wary of reporting any risk without some prior legal protection for the disclosing party. Jurisdiction alignment was a barrier to better reporting.

This dilemma highlights the confusion surrounding the word risk itself. The economist Frank Knight wrote on the distinction between risk and uncertainty in 1921 where he postulated that the two terms had not been adequately separated. To him risk was measurable and uncertainty immeasurable, however today we accept risk as a control function thanks largely to the way risk is seen as a threat to business continuity which demands some contingency planning. Risk as opportunity or gain tends to be eclipsed by the understanding of risk as threat. Uncertainty is a word that needs more exposure.

The dilemma also posed the uncomfortable question of the ability of auditors – whose skill lies in forensic examination of performance – to police future forecasts of strategy and risk both of which being speculative defy any comparison with ‘the right answer’. Back in 2013 the European Financial Reporting Advisory Group (EFRAG) took the view that future forecasts should have no place in accountancy practice, which must by definition be evidence based. Although the BIS has since been renamed BEIS, adding ‘Enterprise’ to its remit, it still struggles to ‘boldly go’ into the risk debate.

This brings me to the two remaining questions: what is the purpose of risk reporting and who determines what is a significant or principal risk? Let’s tackle the purpose first as this is marginally the easier of the two. This is the warning to investors that they may lose as well as gain; it is the government’s ‘caveat emptor’ requirement. The purpose of risk reporting is to aid the decision process. It is not to list every possible known eventuality, history shows that crises were always absent from risk registers, catastrophes are always termed ‘unimaginable’ or ‘exceptional’. Good risk reporting within the FRC is articulating future uncertainty with clarity and candour.

Reporting risk to a regulator is not the same as reporting risk to an investor, their appetites are different, what is attractive to one is repellent to the other. This becomes a challenge like a juicy bone thrown to Corporate Communications, or passed between Investor Relations and Compliance. In a stakeholder aware corporation messages need to be adjusted to suit audience expectations, but risk is a topic that comes with baggage. This of course is if it ever leaves the board room with a consensus in the first place. Every director will bring their own perspective to the table about what constitutes a risk and whether it is acceptable or not.

This leads me neatly on to the second question, who defines and determines a risk? Is it the Chief Risk Officer (CRO), Head of Risk & Audit Committee or some other ‘expert



authority' within the organisation? Given that the board should take collective responsibility for risk, there are still a large number of organisations where the board relies on a single individual or a department as the risk authority. Anyone around a board table can identify a risk and should argue for time to debate it, but how often does this really happen?

Risk is a topic that needs to be properly rehabilitated within boardrooms, especially in times of economic and political uncertainty. Risk aversion will not produce growth and will stifle innovation so a more positive approach to risk is urgently needed to stimulate the UK economy, especially with the Brexit negotiations breeding further uncertainty. Throughout 2017 the FRC has been looking at risk reporting within the Financial Reporting Lab and a report is due by the end of the year. The BEIS will be looking to see risk as an enabler not a limiter, so this could be very interesting.

*Written by Garry Honey, Chiron Reputation Risk CEO and SAMI Associate, published July 12, 2017*



## Boards & Risk – improving risk literacy in the boardroom?



Executive boards have a responsibility for good governance and responsible stewardship, yet persist in treating risk as a control function, not a decision process. A board is required to take collective responsibility for the organisation's risk appetite, yet in most board meetings risk is treated as the privileged domain of the Head of Risk, or Chair of the Risk & Audit Committee. Other directors defer to this person as a risk 'expert'. Consequently risk is confined to imaginable threats to business continuity, a very limited perspective especially as most crises result from unimagined incidents.

Consider two very different unimagined incidents: Ratner jewellery in 1991 and United Airlines in 2017, years apart but with a common theme. In Ratner's case, a disparaging flippant remark, intended for the financial press, reached the tabloid press where Ratner's customers took offence and boycotted the brand. In United's case, an incentive scheme to encourage over-booked passengers to move failed to motivate a customer, who as a result was removed by airport security. In each case the consequences were never imagined because the situations were not itemised on any risk register.

In the past 30 years almost every reputational crisis of note was caused by an incident that had not been foreseen or imagined. This is not a fault of risk management itself, but of how myopic boards have become in their perception of risk. Risk is future uncertainty, good and bad, opportunity and threat. Risk has become a discrete function rather than a vision of future outcomes and bedfellow to Strategy. The same happened to Corporate Responsibility in the recent past: a collective responsibility was identified, attributed to an owner, who became the expert at the board table. What is it in the psychology of boards where authority is sought but collective responsibility is shunned?



The answer to why so many scandals and crises still occur decades after risk became a hot boardroom topic is because boards are looking at risk the wrong way. It also explains why so many communicate it ineffectively. To investors and sponsors risk is presented as a commercial opportunity, the precursor of reward; but to regulators and customers it is presented as something under firm control, a threat that has been confidently mitigated. The language of risk is muddled and so boards need to develop collective **risk literacy**. This is necessary to articulate not only the board's shared appreciation of risk, but also its powerlessness to offer certainty about the future.

What is the best way to develop risk literacy? The first step is to shake off the fear of uncertainty and this might seem unnatural. Boards feel they are expected to deliver certainty to investors, customers and a variety of other stakeholders in order to retain their mandate to operate and instil confidence. Nevertheless certainty about the future is a dangerous place and it has been said there are only two types of forecast – lucky and wrong! Admitting uncertainty is not a sign of weakness or incompetence, provided of course it is qualified. Effective risk literacy requires an appreciation of the different degrees of uncertainty, from known-knowns to unknown-unknowns and all the intervening stages.

Improved risk literacy among boards will reduce the risk of performance getting significantly out of line with promise. In the case of Ratner and United a gap opened up between what investors & customers expected and what proved to be reality. This is the gap into which reputation falls. In Ratner's case customers learnt that he believed his products were 'crap' and by implication they were gullible. In United's case customers believed the airline 'flew the friendly skies' but video footage of a customer being beaten up quickly disabused them of this notion. In both cases discovering reality was a complete shock: in 1991 through mainstream press and in 2017 by social media. It is 'dissonance shock' that damages reputation: trust flees with value not far behind. Reputation is how you behave.

A higher level of risk literacy in boards would also help to address the dissonance when different parts of an organisation exhibit different approaches to risk. This is most common in the public sector but can also be found in the private sector. Public services like schools and hospitals tend to have a risk-averse culture, implicit in the nature of their duty of care. An imposed management level tasked with cost cutting or revenue generation imposes a higher appetite for risk than the operational culture because it will be looking for commercial gain. The clash of risk culture between management and operations can be recognised and tackled with higher levels of risk literacy in the boardroom.

The amount of risk literacy in a board will depend on the industry sector and the extent to which risk is or is not an intrinsic part of the operational environment. Most organisations already know whether they have a risk seeking or risk avoiding culture, the challenge is to ensure the board has the right balance of viewpoints to equip the enterprise for the *future* operating environment. The statutory requirement to report on risk appetite is a good start, and most professional organisations accept that appetite will vary according to a variety of internal and external factors so report it accordingly. There does however need to be greater attention to strategic as opposed to operational risk by the board.

Strategic risks should be discussed by the board but are often unseen or unspoken, either by accident or design. Unseen risks include those which cannot be attributed such a reputation, and those which are simply too complex or political. Some risks are unseen because they are so obvious they have become invisible such as culture itself. Unspoken risks include those which powerful members of the board do not want



discussed or which for legal reasons cannot be openly discussed. Some unspoken risks remain unvoiced because to do so would question the ethics of the organisation. Nevertheless both unseen and unspoken risks fall to the category of strategic risk which the board should discuss.

In conclusion, boards could improve risk literacy through taking collective responsibility for decisions about the organisation's future direction (strategy) in tandem with uncertainties relating to this (risk). Perception of risk as threat or opportunity will vary among individual board members in accordance with their personalities, disposition, outlook and experience but collectively it needs to be corralled into a consensus view in terms of both perception and attitude for the organisation as a whole. This will probably require a CEO or Company Secretary to pull together the consolidated opinion of both executive and non-executive board members, but in the long run the organisation will be in a healthier place and earn greater respect from investors, customers and other stakeholder sources of income.

*Written by Garry Honey, [Chiron Reputation Risk](#) CEO, [Better Boards](#) and SAMI Associate. Longer version first published in September 2017 at [Board Agenda](#), published September 20 2017*



## Decision Making under Deep Uncertainty (DMDU)

The 2017 DMDU Workshop was held in Oxford from 13-15 November, at the Oxford Martin School. This is a grand building in the centre of Oxford which used to be the Indian Institute! About 100 people gathered for the three days, of which the first was a Training Day.

The Training Day introduced a generalised framework for DMDU methods, discussing the contents of a DMDU analyst's toolkit.

I was delighted to hear Claire Craig talk in depth and breadth about "Informing Policy Decisions with foresight methodologies". Her experience in the Foresight Unit before going to the Royal Society as Director of Science Policy gives her insights into how the foresight – or DMDU – community can most effectively provide inputs to policy makers.

Other great perspectives on "the real world" were provided by

- Julie Rozenberg of the World Bank, talking about trying to help small nations get ahead of the curve of destruction caused by climate change, using Fiji as an example.
- Leena Ilmola Sheppard of IASA in Austria, talking about using system maps to help Finnish politicians develop a shared language and so deal better with adapting to immigration in Finland, a country and society which traditionally has not seen this phenomenon.

Many of the sessions were organised to try and bridge the gap between tool sets and decision makers, in defence and security, in crisis management, in water systems, etc. Tool sets included

- Robust Decision Making, out of Rand, and the open version MORDM
- Value Focused Thinking, from MIT
- Agent based modelling from Harvard

And it was good to catch up with old friends. The programme for all three days can be found at <http://bit.ly/DMDU2017>

However an unexpected plus was picking up a copy of the Oxford Martin Commission Report for Future Generations – it was published in 2013 but I had not flagged it at the time, it can be found on [www.oxfordmartin.ox.ac.uk/policy/commission](http://www.oxfordmartin.ox.ac.uk/policy/commission) .

While its list of megatrends has worn well, the framework for the section on challenges is of course pre-Trump and BREXIT. The sections on Lessons from the Past focuses on the importance of international collaboration and networks: and the need for these to be brought to bear on issues such as antibiotic resistance, fossil fuel usage and fishing practice – yes.

In Part C: Practical Futures, the report highlights some of the topics we in SAMI have explored:

- Creative coalitions, as in our report "In Safe Hands" [longfinance.net/784-in-safe-hands-the-future-of-financial-services.html](http://longfinance.net/784-in-safe-hands-the-future-of-financial-services.html) which explored a future in which



the world is organised around city states which cooperate to solve common problems

- Transparent taxation, and the problems from mobility for a tax system based on land and nation states
- Focus on the long term – clearly the core of SAMI’s “strategy with a view of the future” mission and related to the McKinsey Global Institute Report “Companies with a long term view outperform their peers”, [mckinsey.com/global-themes/long-term-capitalism](https://www.mckinsey.com/global-themes/long-term-capitalism)

Reading the report did highlight for me how many of the assumptions of 2013 on the future of global society are being challenged today.

*Written by Gill Ringland, SAMI Fellow Emeritus, published December 13, 2017*