Q&A on good decision-making and “the psychology of risk”

Interviewer:  
Gareth Byatt – Principal Consultant, Risk Insight Consulting

Interviewee:  
Chris Corless – Enterprise risk and audit leader

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Chris,

Thank you for taking the time to provide your thoughts and insights into how to understand “the psychology of risk”, and how good risk management helps to inform good decision-making. There is lots to discuss in this field, and I know that you are an active writer, thinker and reviewer in this space.

I’d like to start by asking a rather broad question if you don’t mind! A paper from the Boston Consulting Group in July 2017 describes the “messiness of today’s world”. It encourages business people to take a “biological” approach to management, to acknowledge uncertainty and complexity of business problems and to address them indirectly.

We read a lot nowadays about how everything in the world is interconnected in an increasingly complex ecosystem, and how organisations, large and small, may struggle to unravel and understand true insights into the uncertainties they face.

I wondered what your views are on the “interconnectivity of risks” in a complex world and what it means for culture and decision-making.

Chris: Thank you Gareth for pointing me to this piece by BCG, it hasn’t come across my radar before, and I think it contains some very valid points. For an interconnected and complex world, I believe there are a couple of ideas that are, in my view, very important:

- First, there is the idea of “rapid experimentation”, which is to uncover the best answer “that works for right now”. The key point is that “right now” might not last very long. In the past, organisations understandably focused a lot of time and effort to find the right answer for the long-term. In an interconnected and complex world, there is probably not one right answer, but a series of right answers that are temporal in nature, that is, they probably will last for a relatively short period before there is a new better answer as the situation changes. It’s therefore important to rapidly experiment with solutions to problems using some sort of scientific approach and monitoring if the desired outcomes are achieved and if they aren’t well, then it’s on to the next idea. Making the shift to adjust to this style will likely not be very easy if you have come from “the old world”. (I see this clearly when you look at a large company in a traditional sector vs. a tech company) To succeed in this environment, you really need to focus on a culture of trust and, where possible, drive decision making to where the information is. For this, I think David Marquet presents some excellent practical thinking on how to achieve
this. Heck, if you can do it as a commander of a nuclear submarine (as Marquet was), it should apply to many business scenarios.

- Second, I think that resilience - and more specifically system resilience - is very important. As the world becomes more interconnected and moves forward at an ever-faster pace, the next big shock to your organisation may not be easily foreseen and protected against - so the best way to prepare for this is to have resilience in your organisation that enables you to recover quickly from whatever shock event that occurred. This year’s World Economic Forum Global Risks Report has a small and insightful piece buried in it, near the end, on this subject entitled “Resilience in Complex Organisations”, written by Roland Kupers Mr Kupers has written a book entitled Turbulence – I highly recommend a read of it, as it contains some deep thinking on the subject of resilience and how to think about and approach it in large organisations. One idea within Turbulence that I thought very pertinent was that, by seeking efficiency, one usually sacrifices resilience. A key question for me on this point, given my recent experience, is: has the resources sector considered this trade-off thoughtfully, as they have spent a number of years focused on cost reduction and efficiency?

Gareth: Thanks for this, Chris. I’d like to continue the theme around organisational preparedness and how we act and react in organisations.

You posted a link to a McKinsey article recently on LinkedIn, about behavioural science in business. The authors state that behavioural science has become a hot topic in companies and organizations trying to address the biases that drive day-to-day decisions and actions.

I’d be interested to hear of the key points that you have drawn from this article, and any associated thoughts you have about how this relates to decision-making and managing risk.

Chris: This McKinsey article is part of a broader McKinsey series on “de-biasing”, and I would encourage everyone to read these pieces, especially the interview with a European utility. The key idea that I took away from the overall series is the idea that you need to consider how to categorise the relative importance of decisions in your organisation so that you can determine how much effort to put into how you de-bias decision making.

Gareth: Does this relate to the McKinsey article on “Untangling your organisation’s decision-making”?

Chris: Absolutely yes that’s the one! The categorisation approach in that piece is very important. I think of this type of categorisation as a way to focus organisational resources on those decisions that matter the most and allowing less important decisions to be de-biased through trial and error (such as rapid experimentation combined with a scientific approach). For me, the key to active debiasing in the organisation is trust. Given how McKinsey paints how to de-bias decision-making, the organisation needs to have a culture that welcomes debate and doesn’t dismiss diverse views. This means that people in different camps and schools of thought need to feel empowered to passionately debate their views but also be open to seeing an opposing view and how it might interact with their own view. In my
experience, without a true sense of trust, this is very difficult to achieve. Once again, I think the approach to leadership that David Marquet articulates (for example in his book, Turn the Ship Around) helps to create an environment where active de-biasing can actually work.

Concerning this specific article, I think there is a lot of merit in using AI and machine learning to help uncover biases in thinking, starting with simple decisions to begin with. If such tools can uncover good data with which to uncover the biases, then it could hopefully help people work through them and make better decisions. A key area of interest for me as these tools are developed (as they surely will be) is understanding how the models they use work. This will help both improve the models and also improve how they are used. A scientific approach to this will help to test the effectiveness of the models and how to adjust to improve over time.

Gareth: That’s an interesting idea. It leads me onto a point about “seeing insights”. I have followed the work of cognitive psychologist, Gary Klein, for some time. Gary has written a lot (in books, research papers, and articles for the Harvard Business Review and other publications) about how people think and make decisions. I was interested to read his research into the ways that people see insights. Gary talks about how we could see more insights if we spend less time on reducing errors, and more time being curious, seeing connections, spotting contradictions and coincidences, and recognising when we are faced with “creative desperation” (meaning that we have an urgent problem to solve). Do you think we spend enough time focusing on insights, or too much time looking at and reacting to things we already know about? Or is the focus about right, most of the time?

Chris: It is a great question, and I think we probably focus too much time looking at things that aren’t necessarily the most important in the specific moment. I believe the reason for this is that, too often in management practices, we get fixated on a specific target without taking the time to articulate an associated probability distribution and, perhaps most importantly, agree ahead of time what is an important deviation or not. When you combine this with the sheer volume of management data you can have a big problem. (Anyone else experienced the 85 page monthly report?) Let me give you an example. Think of the budget process of most organisations and the ongoing management reporting processes that accompany it – I have yet to see a budgeting process that takes this approach and drives management conversations to focus on “the deviations that matter most”. Without this focus, management meetings can become a “free for all” of discovery, with everyone having a different view of what’s important and it all becomes fairly random and dependent on experience. This is where I think borrowing from the engineering discipline, using statistical process control concepts and using risk tools of variability, tolerance and appetite can bring together a mechanism that helps ensure that management focuses their attention on the right things. If we use statistical process control concepts, we will clearly see when attention is needed and we will hone in on the quality/reliability of the data that is being used for decision-making. I think a side benefit is that this will free up management time to focus on the connections and contradictions that Klein speaks of.
In some cases I have seen organisations use traffic light type reporting as a way of trying to turn data into information (although never in the budget space). I think that this is a good step in the right direction, as long as there has been agreement and communication for what thresholds turn the traffic light from green to yellow to red, so that everyone is clear why these changes will occur and, perhaps more importantly, know what needs to happen when the threshold is breached – or better still, act early before it is breached.

Somehow, we need to move away from management reporting that has a too frequent cadence, which requires people to look at hundreds of pieces of data all the while being entirely dependent on individuals to find the crux of the matter. We spend far too much time trying to find the needle in the haystack and in some cases we are not even sure it’s a needle that we are searching for.

**Gareth:** I see what you mean. I’d like to talk now about a topic that relates to this – of culture, and the impact it has on how people take and manage risk in their everyday activities. You have written some good articles on LinkedIn about culture, including “Is trust key to a great risk culture?” and “What the heck is risk culture?” (I like your analogy with water melons in that latter article!)

I wondered if you could elaborate a bit more on what you see as a positive culture and how it can make a significant impact on taking and managing risk.

**Chris:** Thank you for taking the time to read my pieces – with so much content passing by people these days I appreciate the time to read and provide feedback. You are right I have given culture quite a bit of thought in the last year or so. I think a great culture is one where there is sufficient trust that people listen and can debate without fear of reprisal. In What the Heck is Risk Culture I have loosely called this a learning culture, which, I suppose if I were to revisit, I would add that I like to see a culture that engenders a natural curiosity in people to understand and solve problems they come across, as well as to know when to ask for help when they need it and to be willing to ask for that help. For me, this is a solid stage four “we’re great” culture, as described in Tribal Leadership by Logan, Fischer-Wright and King which gives a practical guide to help achieve this necessary stage. I recently came across a quote from Andy Stanley that I think sums this up nicely: “Leaders who don’t listen will eventually be surrounded by people who have nothing to say”. Trust on all sides fosters listening and, in my opinion, is the key ingredient for a great culture.

Simon Sinek gives some ideas on why this is so important to us as a species. He provides insight into our anthropology and how having and nurturing trust in the organisation can be a competitive advantage in his book, Leaders Eat Last. I have used some of the key elements of this in my writing to reinforce the importance of trust in the creation of a learning/risk culture. I believe that, without the right culture, having resilient risk management is very tough to achieve, even if you have the best people and management system in your function. This is because without trust people are fearful to raise less than welcome news and this inhibits resilient risk management. (and quite frankly business in general) No one person can do it alone, we need the whole organisation to find problems, make suggestions, fix problems and improve and the key to this is trust. Without trust I can guarantee you will have watermelon reports, you know the kind all green on the surface but hiding dark red just below the surface.
Gareth: Is there anything else related to this discussion about decision-making and the psychology of risk, Chris, that we haven’t covered and which you would like to raise?

Chris: It probably won’t surprise anyone, but I am a big believer in driving a leadership/management style that is the opposite of the traditional command and control leader knows everything model. For right or for wrong I believe that the command and control style (stage 3 for those Tribal Leadership devotees) drives a culture of fear and prevents important insight from being surfaced to help improve the business. In the modern era of complexity and speed, it is impossible for one person to know everything, so how can we still tolerate this style of culture in our organisations today?

Gareth: Lastly, I’d like to finish by asking if you are following any particular thought leaders on risk management at the moment, whose work people reading this interview may find of interest.

Chris: For me at the moment anything that is at the intersection of leadership, biases and risk. Authors like David Marquet (Turn the Ship Around) and Simon Sinek (Leaders Eat Last) show what is possible and why, while Tribal Leadership (Logan, Fischer-Wright and King) helps give very practical insight on how to go about shifting yourself and the team in the right direction to achieve a better culture. My current read is Thinking Fast and Slow by Kahneman, its early days with the book but it looks very promising as a top read.

Lastly, if you haven’t read the World Economic Forum Global Risks Risk 2018 report, do so – and if you feel you only have limited time to read it, be sure to check out the Risk Management section, which has brief but powerful conversations on resilience and biases.

Thank you very much Gareth, I have really enjoyed your questions and the opportunity to share some of my thinking in this space.

Thank you very much for your time, Chris.