NEWS

TIP 1 BEYOND STRATEGY

# RISK MANAGEMENT IS A PARADOX

**Question:** How do you manage risk?
**Answer:** Through research. Originality. Innovation. Thinking the improbable.

"Risk management implies that risks can be managed. They cannot. That is the essence of risks: you enter a hidden and open room where anything can happen."

**Preben Melander** is a professor of Applied Management Technology and Director of the Centre for Business Development and Management at CBS, the Copenhagen Business School. In his view, most companies manage risks as a kind of bookkeeping. They balance scorecards, describe patterns, estimate where things may go wrong and calculate the consequences. But at best, traditional risk management creates an illusion that we are controlling risk. It is like defending yourself against an unknown enemy.

"Few foresaw the financial crises. No one predicted 9/11. No one saw the cartoon crisis coming," he says. "We live in a chaotic and complex world where anything can happen, and sometimes does. Risk management is about original thinking. About reflecting in an open space where we don't have systems, rules and routines to guide us."

## Grand models

There are grand models for risk management. The International Organization for Standardization has even published standards for risk management defined as the "identification, assessment, and prioritization of risks". The big, multinational consultancies and accounting firms have developed complex risk management systems, but according to Professor Melander, only few Danish companies have embraced these systems, because they found them too cumbersome and bureaucratic.

"The problem is that risk management has been left to the wrong people in the organization – primarily those involved with company finances and management accounting. They think in linear structures, estimates and budgets. What is required is originality and innovation – thinking the improbable. Companies must be able to sense even soft, unstructured signals," says Professor Melander.

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## Radical innovation

His research has found that many organizations – both private and public – are risk averse. Risks are taboo, and managers prefer to talk about successes. They shy away from dealing with intricate problems and unknown threats and weaknesses because they consider them dangerous to their carriers. Such an attitude, obviously, prevents companies from preparing themselves for the unexpected.

"Strangely enough, top management and directors have shown little interest in risk management even though this has been a specific recommendation of corporate governance for years," says Professor Melander. "But it is changing. The world has become more dramatic and developments in faraway places influence our economy and our finances. Rounding up the usual suspects is not an option."

And Professor Melander adds: "Risk management is a part of radical innovation leadership that enables us to break lose from conventional ways of observing our environment by using intuition and creativity and the endless interaction between them. We call this approach "beyond strategy".

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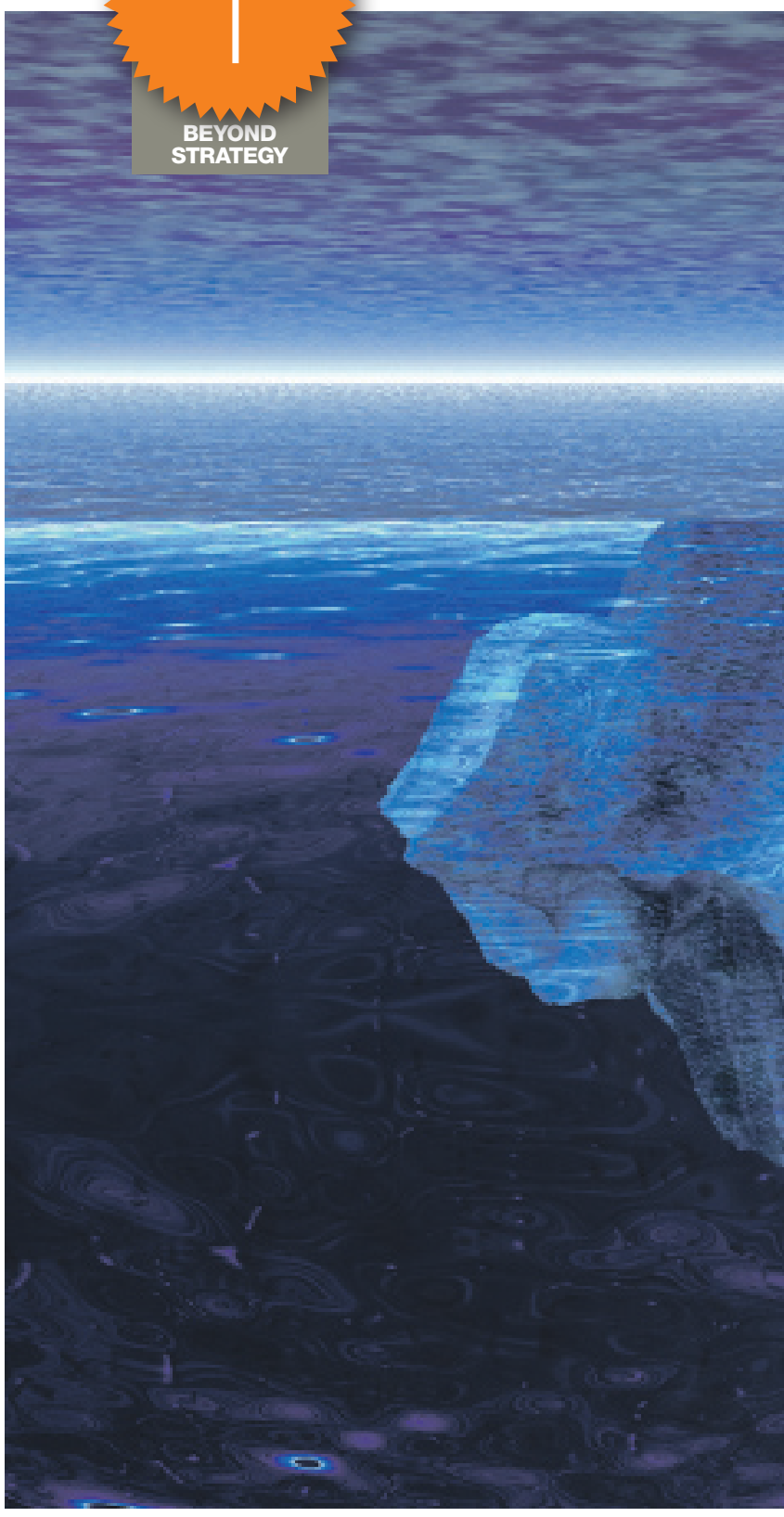

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