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# ELEMENTS OF PROFESSIONALISM IN CORPORATE RISK MANAGEMENT OF THE 21ST CENTURY

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# RISK MANAGEMENT
# UNIVERSITY OF SOUTHAMPTON:

# Elements of Professionalism in Corporate Risk Management of the 21st Century

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# Introduction

Ever since its establishment, Corporate Risk Management as a field has adapted and evolved alongside the ever-changing business environment, that entails short- and long-term goals and challenges that business continuously face. Nevertheless, a relatively constant parameter in the "risk management equation" is that bundle of elements of which the professionalism of risk managers is comprised of. While these elements are mostly qualitative and are not easily quantifiable, they pose a theoretical indicator of what elements of professionalism should be exhibited in corporate risk management as the field is not mechanical and automated rather it exhibits a continuous effort to plan, prepare, adapt and enforce, thus so must the professionals, departments, frameworks within it. And to do so some elements of professionalism may be deemed to contribute more in risk management processes and activities. Therefore, this essay's objective is to critically investigate some of the necessary elements of professionalism in the field of corporate risk management, and highlight their significance in terms of practicing, formulating, and regulating risk managing activities efficiently and successfully.

# Discussion

Before analysing the specific elements of professionalism in the particular field, a general overview of what professionalism is and what it consists of is worth stating. Firstly, professionalism refers to the expected competence or skillset from a professional that practices a particular activity. While this definition is broad it captures a concept that is necessary and extremely relevant to risk management professionals. That is that risk managers as any professional are expected by the public, companies, and clients to be competent and skillful in successfully carrying their tasks and obligations to completion. Studies indicate that the main components of professionalism that can be applied to most organisations and fields of expertise are integrity, reliability, respectfulness, empathy, self-awareness, self-improvement, communication, and advocacy**.**

While these elements are representative, they fail to grasp some of the key attributes that are vital for risk managers' professionalism. Therefore, in the sections below it will be attempted to elaborate on some of the elements that may be more precise variations of the above generic components and are deemed to be crucial for the establishment of professionalism in the field of corporate risk management. More specifically, this essay focuses on fives elements that are considered essential for ensuring the presence of professionalism but also the securing of goals and tasks. Such elements are critical thinking, pro-activeness, flexibility, information management and finally integrity (Dionne , 2013).

## Critical Thinking

Critical thinking is the intellectual process of actively performing objective analysis and evaluation of gathered information as to develop a constructive judgment upon it (University of Louisville, 2022).Therefore, for a professional in risk management to be competent she or he should also possess critical thinking, this relationship between the two elements can be made by assessing the nature and objectives of the profession and field. Traditional corporate risk management entails the development of an operational, governance and financial framework within each organization as to prepare itself against uncertainty, mitigate the impact of risk, and reduce vulnerabilities. Critically thinking in risk management is of great significance as it is needed in potentially all of the processes necessary to carry out risk assessment, whether that is assessing information, registering and controlling risk and most importantly in developing a risk management framework within an organization. And in order to establish Risk Management Infrastructure that will continuously compliment the field's objectives, regardless of the ever-changing externalities that "generate" risk, critical thinking is necessary. More specifically, critically thinking is vital due to the uncertain nature of risk where mere competence may not be enough to tackle it to its core rather it often only partly mitigates it, whereas through critical thinking a better assessment and evaluation of information can be achieved in a timely manner that may even completely address the potential risk's impact. (Hillson, 2003)Consequently, critical thinking also entails the in-depth holistic understanding and continuous enhancement of an organisations current approach and processes towards risk that need constant refinement in accordance with the organisations needs and external forces that affect it. Such an example of applicative critical thinking has led to the evolution of traditional risk management (TRM) into enterprise risk management (ERM) alongside the concept of resilience management (Dionne , 2013)**.**

In addition, critical thinking and constant re-evaluation and assessment of surrounding information, existent frameworks, and risk infrastructures, helps to promote prudence, a fundamental element of risk culture. That is due to prudence enabling professionals and organisations to take a step back and gain a holistic view when it comes to foresight of potential risk (Marshall, 2016).

This evolution path of risk management has mostly occurred due to the willingness of mindful, prudent "critical thinkers" to revisit TRM perspectives and processes and refine them into improved risk-intelligent decision making that identifies risk faster and with precision. Critical thinking overall enables organization to redefine the corporate risk management strategies by considering alternative options and perspectives, integrating new or revised processes, and promote criticality so that organisations can mindfully identify and manages risks systematically (VanVactor & Gill, 2010).

## Proactivity

In terms of risk, it has been often noted that organisations fail to take action on a timely manner and thus facing detrimental consequences such as late problem-solving, increased cost and expensive workarounds for the implications of risk inducing events, and disruption of the firm's operations (Smith

& Merritt, 2002). While risk management as a field is exclusively dedicated on addressing such issues traditional risk management has displayed that is mostly reactive to risk. Meaning that it either aims to address and mitigate the impact of the risk that has occurred in an organization or that it aims to prevent the resurgence of a similar event or risk, while more modern approaches of corporate risk management such as enterprise risk management tend to more proactive. Being proactive according to ERM incorporates the concept of foresight and aims to identify potential risks before they occur and formulate strategies to inhibit the presence of risk. By being proactive in terms of risk management corporations not only are prepared and tackle future risk but also are enabled to transform future weaknesses into strengths and opportunities, thus driving their competitive advantage upwards and sustain future growth compared to the rivals and other entities that are less prepared. Thus, by being proactive risk managers, their departments, and the organization within they operate can identify drivers of risk and address them rather than react to an occurring risk and tackle its "symptoms" (Smith & Merritt, 2002).

In accordance with Resilience Management, a variation of the traditional RM approach, the need for proactiveness can be highlighted by two metaphorical terms the Risk Radar and View of Risk. These two notions depict the continuous practice of risk intelligence as for the organisations to be informed as much as possible prior to the occurrence of risk. More specifically, the Risk Radar is the practice of constantly scanning the environment for risk related information which thereon updates the View of Risk of the organization (Sperb & Marshall, 2018). It can be noted that Resilience Management heavily depends on these two concepts so that organisations who possess all the necessary information and refine it continuously beforehand also have the ability to rapidly adapt and respond to risk. In combination to the above Corporate and Risk Intelligence emphasizes on scanning, a mechanism similar to the Risk Radar that is a necessary proactive mean that precedes the actual gathering of information needed to perform risk intelligences processes (Cranfield School of Management, 2014).

Finally, it can be deduced that timing in corporate risk management is essential, that is because a proactive organization may initially dedicate resources in foresight in the form of assessing how future risk can arise and obstruct its operations, but it is now prepared against any possible risk, capable to minimize its occurrence, tackle it rapidly and effectively, and ensures the overall wellbeing of the organization's operations and progress (Smith & Merritt, 2002).

## Information Management & Communication

As mentioned above risk management, and corporate risk management, heavily depend on rapid and accurate information, this is due to the fact that corporations operate within an extremely volatile environment where plethora of parameters continuously change and can influence their operability. Therefore, an element of professionalism in both an individual and collective level within the field is to be able to manage information in a manner that decreases risk and may even transform it into opportunity and competitive advantage (Cloutier, 2013).

Management of information within the field of risk can be better described by Strategic Risk Intelligence which is closely related and overlaps with military, competitive and marketing intelligence as observed in the figure below (figure 1).

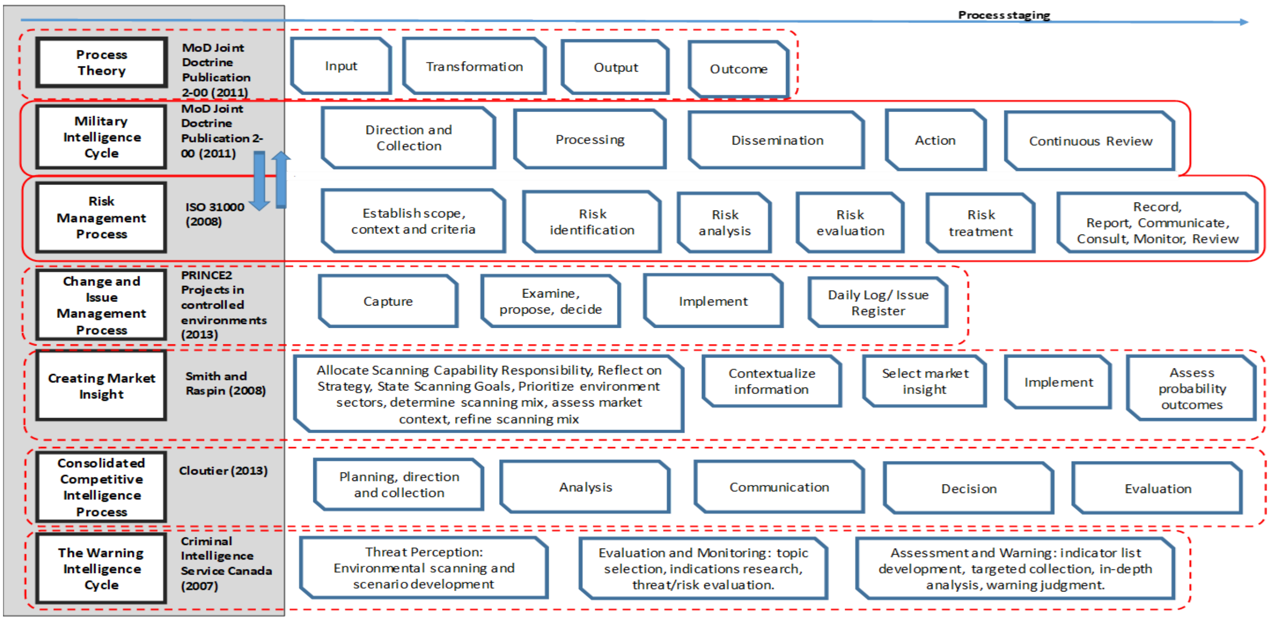


*Figure 1- Risk/Security Intelligence function (Marshall, 2022)*

As part of Risk Intelligence managing information includes the ability to gather, process, and finally to materialize this information through action and strategies that identify, quantify, and ultimately mitigate risk. However, gathering and assessing information can be extremely challenging for both risk professionals and organisations. That is due to the high premium imposed on early and accurate risk intelligence that arises from the validity and credibility of both the source of the information and the information itself. Military and governance institutions such as NATO have established a thorough framework to verify information and its source that indicate the complexity and sophistication that should precede any corporate application of acquired information. Consequently, it can be deduced that information management skills are vital for risk professionals to competently address risk. That is due to the fact that the accuracy of information gathered and analysed through complex risk intelligence processes on potential and perceived risk can be detrimental for the formulation of strategies that counter or prohibit risk manifestation (Caldwell, 2008).However, standalone information can only be deemed useful as long as it can be communicated effectively alongside the Risk Management infrastructure that may include the entire organisation. Thus, management of information in corporate risk management is significantly codependent with the communicative abilities of the risk professional or department (Lehane, 2011).

Under the notion of Risk Communication organisations utilize communication techniques and approaches as to convey and transfer all information generated from Risk Intelligence throughout the organisation. Some specific aims of risk communication might be to influence behavioural change, provide instruction for risk, crisis, and conflict resolution and overall to establish a climate and culture that embraces dialogue as to holistically perceive risk from various points of view (Fischoff, 1995).

## Flexible & Adaptability

As stated previously, the current corporate environment is extremely volatile and can be better described by ambiguity and high degree of uncertainty, particularly now where a peak in social and environmental, energy and supply chain crisis has been observed whose risks have had detrimental impact on businesses and organisation around the globe. A mechanism and element that has played a crucial role in moderating the adverse effects and impact of risk in corporate operations is flexibility. Flexibility or adaptivity composes of a skillset and processes that empower the consideration of alternatives in the form of hedging both external business risk as well as internal managerial risk. In an interpersonal and professional level flexibility consists of mindfulness, critical thinking and aptitude for rapid decision-making when facing uncertainty and risk. More specifically, risk professionals that exhibit flexibility and adaptability continuously put initiatives under the microscope as to be prepared to implement innovative and “outside of the box” thinking processes when facing rapidly changing circumstances that indicate uncertainty. Actor-based flexibility is a concept extremely relevant in both traditional RM but also ERM, Resilience Management and Intelligence processes due to the fact that risk and information that exhibits it is not a constant rather it is an ever-changing and evolving variable that needs monitoring, regulation and refinement (Smith & Merritt, 2002).

Overall, by being flexible and adaptive to change risk professionals counter one of traditional RM’s biggest flaw, planning. While planning has its benefits in terms of developing a framework that on average will be able mitigate expected or known risk but will be extremely rigid when it comes to circumventing sudden and unexpected shocks (Stulz, 2008).Planning’s flaws can be traced back to the reactive nature of traditional RM and the need for organisations to establish a static guide or framework to identifying risk and ameliorating principal or acknowledged risk while it neglects to be creative in terms of identifying and controlling for emerging risk (Institute of Risk Management, 2021).

While planning has its limitations so does flexibility. Flexibility is a double-edged sword, that on the one hand can help organisations gain a competitive advantage through rapid maneuvering between emerging and principal risks, but on the other hand it can disorient dissipative organisations that need continuous and thorough monitoring. Higher degree of flexibility leads to more freedom that can easily lead to the risk of deviating from the organisation’s strategy, direction and objectives and ultimately lead to operational failure (Sushil, 2017).

## Integrity & Ethics

All the above-mentioned elements possess significant value when it comes to competence and operational abilities of risk managers and their departments however, they do not consider the means utilized to achieve certain results. The financial crisis and various corporate scandals of the past few decades have raised awareness about the ethical conduct and practices and their effects on corporate entities.

Risk Management is closely related with both Compliance and Governance within an organisation which are responsible for smooth operation and adherence to laws, corporate guidelines, and code of conducts. Good ethical practice and integrity are integral elements of professionalism especially in risk management, as they not only ensure the adherence to laws but also help prevent fraud, preserve corporate reputation, and mitigation of internal risk, all of which increase the probability to identify risk and potential transgression and increase operational capabilities (Francis & Armstrong, 2003). More specifically commitment to ethics is important in both addressing threats posed by unethical or illegal activities, in establishing better governance and ultimately in protecting shareholder's value. According to Demidenko and McNutt, effective ERM is based on ethical risk governance, as it enables organisations monitor agent's responsibility and accountability and ultimately disincentivizes unethical conduct or incentives the cautiousness towards any other internal or external malpractice (Demidenko & McNutt, 2010).

In an individual level risk professionals must fulfil their obligations with integrity and ethics in accordance with the Code of Conduct, this is not only morally correct but also influences positively the performance and efficiency of risk management processes and activities. The Code of Conduct is a framework that consists of guidelines, and rules for both professionals and organisations to better identify and capture risk and challenges they face. Therefore, by adhering to it risk professionals become well accustomed and experienced with the organisations culture and approach towards risk. Additionally, professionals can always "reach out" to the Code to be assisted by gaining useful information on policies and procedures and by familiarizing with the ethics and moral rules that need to be taken into consideration prior to any activity (Institute of Risk Management, 2022). As an extension of applying ethics in risk management, prudence is also crucial element of a risk manager's professionalism. Due to prudence being the optimal demonstration of morality, integrity, and ethos within an organisation by committing, goodness, truthfulness and justice when practicing risk management (Marshall, 2016).

Overall, ethics and integrity are two fundamental elements of professionalism in risk management, whose neglection is immoral but also risk inducing that may comprise professionals in an individual level or even compromise an entire organisation.

# Critique

Professionalism and its elements play a significant role in carrying out risk management activities effectively on an individual and management level, however studies have indicated that the overall level of expertise and professionalism of individuals may often lead to paradoxes regarding the increase of risk of errors and accidents. This is because of the presence of cognitive biases, such as the overconfidence bias under which the proven experience and professionalism of individuals promote practitioners to break procedural rules. In addition, risk professionals tend to favor adaptation over standardized practices, something not strictly negative, but in combination to the presence of blind spots within organisations that restrict the flow of valuable information, they can lead to risk inducing activities that are detrimental for the organisations (Holtman, 2011).

# Conclusion

Professionalism is a complex concept that could consist of a plethora of elements and depending on the profession and field of expertise the noteworthy elements that contribute the most to the profession's obligations and goals could vary significantly. From the above discussion it has been thoroughly investigated how critical thinking, information and intelligence management skills, flexibility and ethics may be considered as some of the most contributing skills in corporate risk management. Each of these elements may not be deemed enough to standalone to ensure the establishment of professionalism of an individual, collective, or organizational level in the field of corporate risk management, however by combining them all, organisations can aim to increase the degree of professionalism regarding their approach towards risk and its management.

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