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The rise of the humble chief risk officer

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They need the confidence and humility to influence others

You do not own your reputation. It is shaped and decided by others. You may think you are running an outstanding business which behaves properly almost all of the time. Others may well differ.

Damage to corporate reputation can hit share prices, profitability, and end people's careers. It is too soon to say what harm Google and other tax avoiders will suffer in the wake of recent controversy. But if popular discontent lasts and the pressure on politicians to act grows, these businesses will be hit hardest where it hurts chief financial officers most.

The Swiss firm RepRisk recently published its "most controversial companies" index for 2015. Here were some of the names that featured most prominently, and not in a good way, last year: Uber, Volkswagen, Sony, HSBC, Fifa. They were deemed to have mishandled environmental, social or governance issues. This was one league table you did not want to appear in.

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Have chief risk officers (CROs) been asleep on the job in these cases? Why did boards not know what was about to hit them? Management of risk is a question of culture and behaviour. It is hard for any CRO to influence risk management in a business if it is not seen to be taken seriously at the top.

In a paper written while she was at Harvard Business School, Anette Mikes (now a professor at the university of Lausanne) discussed "the triumph of the humble chief risk officer". By this she meant that successful CROs combined confidence and humility to spread their influence.

“They took on the challenge to develop the idea of risk management and its apparatus themselves,” Mikes wrote. “Yet at the same time, they displayed a lot of humility, acknowledging failures, struggles and imperfections. They regarded their work as unfinished.”

In this subtle way good CROs spread the right approach to risk management through the organisation. A healthy sensitivity to risk, characterised by what Mikes calls “risk talk”, develops and is noted by the board and employees alike.

Risk management may not be effective if it is imposed top down from a lofty boardroom that does not really grasp the minutiae of the business’ day-to-day activity. Grudging and unthinking compliance may be the result. Instead, a good board will endorse and support the work of a CRO and help his or her influence to spread.

Bad news can bite at any time. The board cannot know everything. But it can try to ensure that the organisation develops the right attitude to risk. Otherwise, and before very long, you may have an appointment with the media and regulators that will be even more unpleasant than a lengthy stay in the dentist’s chair.

Stefan Stern is director of the High Pay Centre, which tracks executive pay

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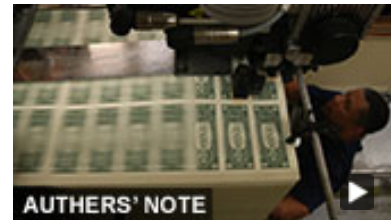
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