

# Comments on the 'IRG Protocol for Emerging Risk Governance'

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# Agenda

- ◎ Offer brief, critical but also (hopefully) constructive comments
- ◎ Borne of reflections from the standpoint of recent developments at the interface of behavioural science and strategic management

# Dynamic capabilities

(after Teece, 2007, *Strategic Management Journal*)

- ◎ The mechanisms ('skills, processes, procedures, organizational structures, decision rules and disciplines') that enable learning and innovation at the organizational level:
  1. Sensing opportunities and threats (**cf. analysis**)
  2. Seizing opportunities (and mitigating threats) (**cf. choice**)
  3. Transforming the organization (in the light of what has been learned) (**cf. implementation/strategy into action** )

# Emerging risk governance as dynamic capabilities

(after Teece, 2007; Hodgkinson & Healey, 2011; *Strategic Mgt. Journal*)

- ◎ **Sensing** (weak) signals (key requirement: developing and maintaining mental models of risks fit for purpose)
- ◎ **Seizing** opportunities and mitigating threats (key requirement: minimizing cognitive biases in risk judgment and choice/decision making)
- ◎ **Transforming** the organization (or other relevant unit) in the light of the developments at hand (key requirement: managing identity threats)

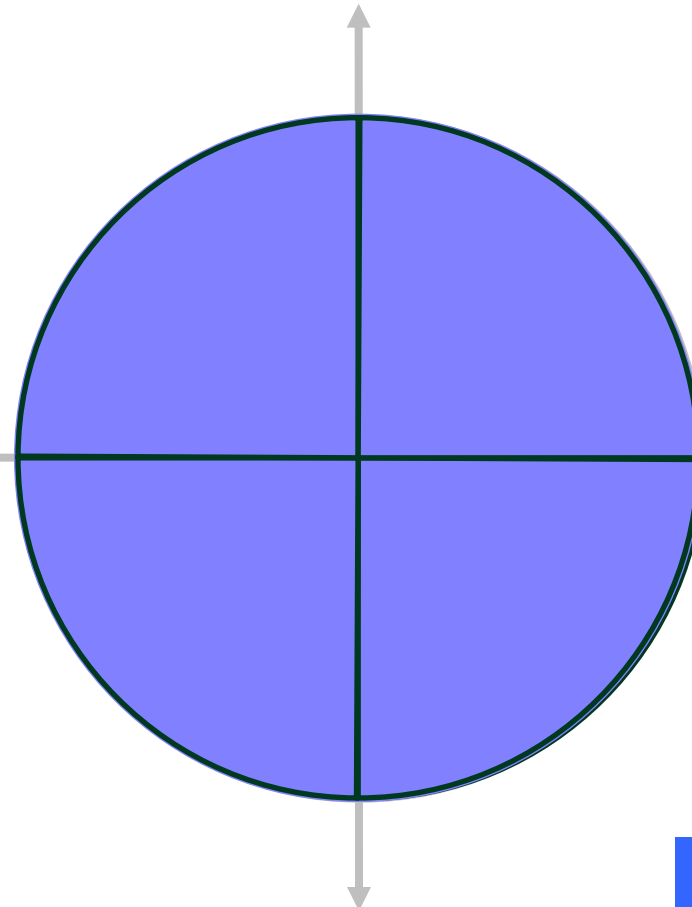
# But...

- ⊙ Thinking harder (**reflectivity**) is not enough
- ⊙ Intuition and related non-conscious forms of cognition (**reflexivity**) are central to effective human adaptation
- ⊙ With certain provisos (Kahneman & Klein, 2009, 2010)
  - Expertise (typically 10 years or more in the making)
  - The presence of reliable cues that can be detected reliably
- ⊙ None of these key boundary conditions holds in the case of ERs!
  - So treat intuitions with extra caution
  - But don't dismiss them out of hand

# Revisiting the psychological foundations of dynamic capabilities

- ⦿ Social neuroscience is revealing interactions of reason and emotion
- ⦿ Strategic management and organizational decision making typically portrayed as rational and dispassionate
- ⦿ Our research draws on social cognitive neuroscience and neuroeconomics to revisit the psychological foundations of dynamic capabilities ...
- ⦿ **Central message:** Emotion/affect and less deliberative forms of cognition are integral to the adaptive capabilities of economic actors and their firms

**‘Hot cognition’  
(Emotional/affective)**



**Conscious/  
deliberative**

**‘Cold cognition’**

**Construct space  
of strategic  
cognition**

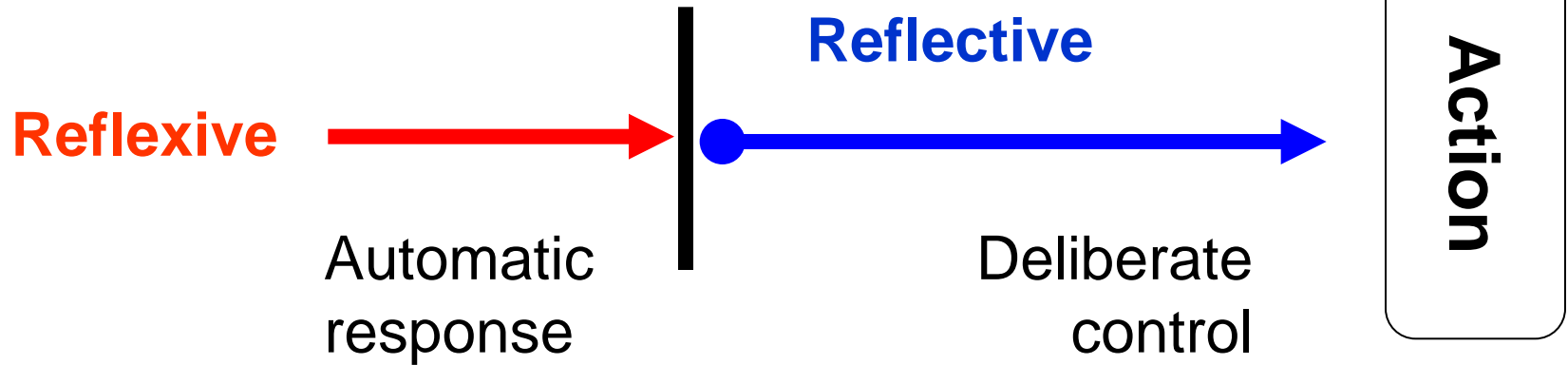
# Contemporary Developments in the Social Neurosciences

- ⊙ **Whereas previously** the 'higher mental functions' of the cortex (the reflective system) were believed to correct the 'primitive' limbic system's automatic and affective responses (the reflexive system)
- ⊙ **More recent work** has revealed a more complex interaction between the systems, each operating simultaneously and competing
- ⊙ Hence, sub-cortical processes are no longer viewed as mere sources of error and bias to be overcome with effort, but integral to human cognition and critical for skilled processes such as intuition

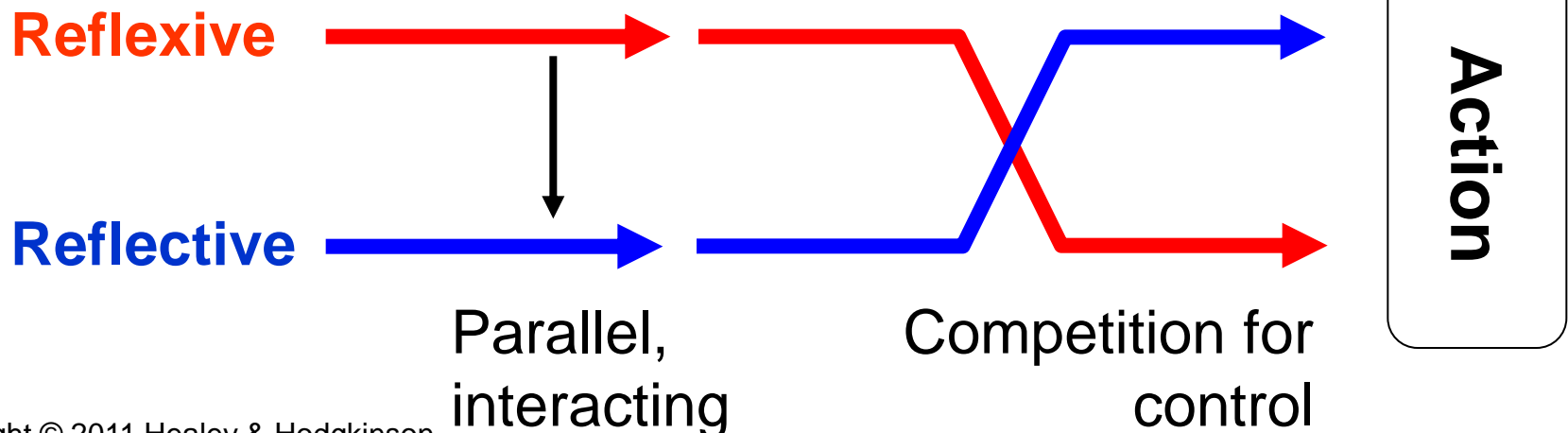


# Cognitive neuroscience & dual-process models (e.g. Evans, 2008)

## Default Interventionist



## Parallel Competitive



# Other pertinent developments

- ◎ **Risk as feelings** (Loewenstein et al., 2001)
- ◎ **The somatic marker hypothesis**
  - Memories embodied as resonating emotions activated in context-congruent situations (Bechara, 2004; Damasio, 1994)
- ◎ **‘Affective tags’** (Finucane et al., 2000)
  - Positive & negative markers from individuals’ ‘affect pools’ tag to all mental images (Slovic et al., 2000)
- ◎ **The affect heuristic and affect as information**

# A key imperative: organisations must...

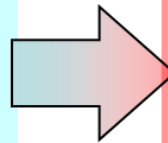
- ◎ Create the time and space to surface and explore emotional reactions to ERs and reconcile underlying differences of interpretation

# Psychological foundations of organizational transformation

- Identity constrains adaptive capacity
- (Social) identity threat - ostracism, social exclusion - activates same neural network as physical pain

## **Identity change via cold cognition**

Re-categorize into  
'superordinate identity',  
build 'fluid identity'



## **Identity change via affective & reflexive mechanisms**

Affirmation of self,  
affirmation of consonant  
identities



imagination at work



# Key skill and capability requirements

## ◎ Emotional self-regulation: the ability to

- Recognize and regulate personal feelings (controlling own ego-protective goals and affective responses)
- Identify, interpret, and respond to the ego-protective goals and affective responses of others



# The emerging risk conductor

- ⦿ An interesting and potentially useful metaphor for the coordination of expertise dispersed over diverse stakeholders (**but it seems exclusively a male role?**)
- ⦿ Is the leadership of such a complex process best accomplished via a sole individual or a team composed of individuals with complementary skills and knowledge?
- ⦿ The team cognition literature implies key roles for effective cognitive leadership in this context (see, e.g., Hodgkinson & Healey, 2008a, *Annual Review of Psychology*)
  - Transactive memory development (knowing who knows what)
  - Headful interrelating
  - Knowledge accuracy

# What might the ideal 'key participant' look like (behaviourally speaking)?

- ⦿ Openness to experience (high)
- ⦿ Emotionally stable (low neuroticism)
- ⦿ Moderately agreeable
- ⦿ Conscientious
- ⦿ Moderately extraverted
- ⦿ High intrapersonal functional and organizational diversity (thus helping to mitigate identity concerns)
  
- ⦿ But the world is often far from ideal (so adapt the facilitation process to the composition of the team at hand)

# Insights from organisational case studies

- ◎ Inertia and resistance could and should (in my view) be linked back to my earlier insights re: dynamic capabilities and the role of self-regulation in combating forces
- ◎ Note self-regulation (emotion management) is a key skill requirement of the ER conductor and others in her or his team
- ◎ Positive and negative emotions have a clear role to play in the change management process and in fostering the required reporting and mitigation behaviours



# Insights from organisational case studies

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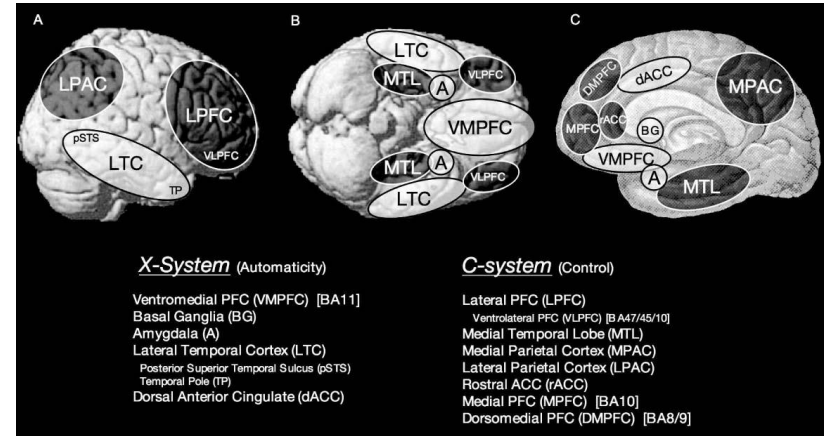
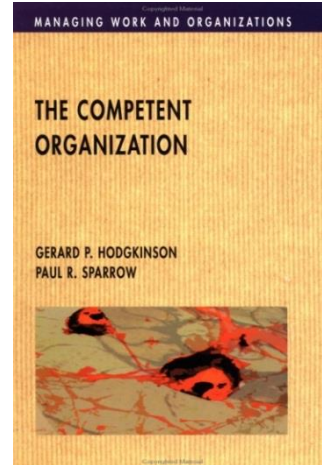
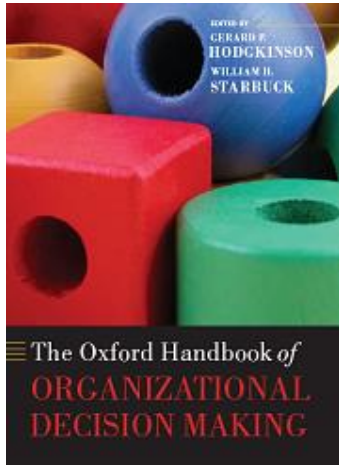
- ◎ The absence of scientific evidence and the gathering of such evidence will not necessarily mitigate the threat of political and/or public attention
- ◎ Evidence gathering, analysis, interpretation, and application are all inherently political acts, as is the use of ‘experts’ in events like today’s gathering (see Hodgkinson, 2012)

# Insights from organisational case studies

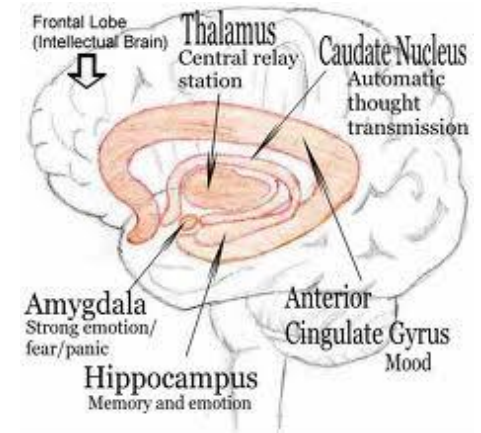
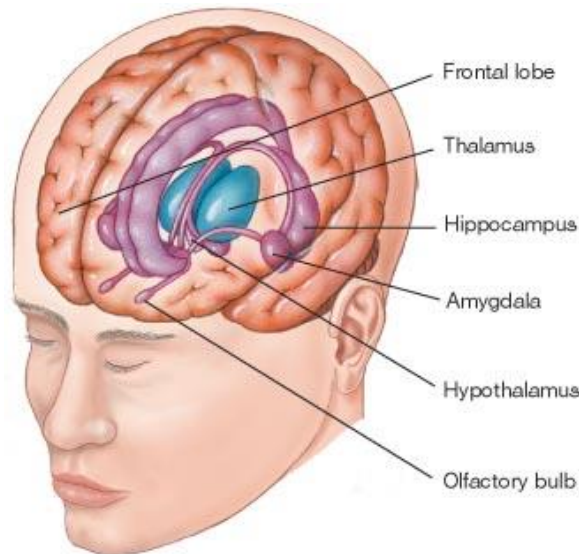
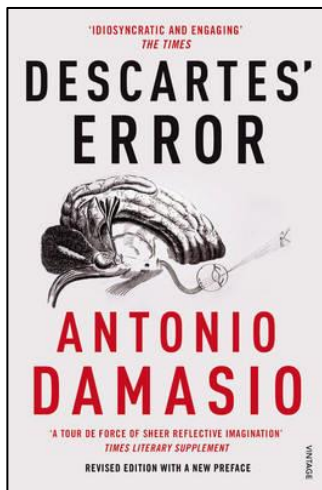
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- ◎ Managing skilfully the socio-political dynamics pertaining to the design of effective specialist units for the governance of emerging risks (who, what, where, how and with what effect)
- ◎ Consider (for example) desirable psychological characteristics of ‘key participants’ (e.g. Big Five traits) in scenario teams and decision processes and mitigation strategies in design of scenario events (Hodgkinson & Healey, 2008b)

# The science behind my remarks...



Source: Lieberman, M. D. (2007). Social cognitive neuroscience: A review of core processes. *Annual Review of Psychology*, 58: 259-289. Copyright © 2007 by Annual Reviews. All rights reserved.



# The science behind my remarks...

- ◎ Hodgkinson, G. P. (2012). 'The politics of evidence-based decision making'. In D.M. Rousseau (Ed.), *The Oxford Handbook of Evidence Based Management* (pp. 404-419). Oxford, UK: Oxford University Press.
- ◎ Hodgkinson, G. P. and Healey, M. P. (2008a). Cognition in organizations. *Annual Review of Psychology*, 59, 387-417.
- ◎ Hodgkinson G. P. and Healey, M. (2008b). Toward a (Pragmatic) Science of Strategic Intervention: Design propositions for scenario planning. *Organization Studies*, 29, 435-457.

# The science behind my remarks...

- ◎ Hodgkinson, G. P. and Healey, M. P. (2011). Psychological foundations of dynamic capabilities: Reflexion and reflection in strategic management. *Strategic Management Journal*, 32, 1500-1516.
- ◎ Hodgkinson, G. P. and Healey, M. P. (in press). Coming in from the cold: The psychological micro-foundations of radical innovation revisited. *Industrial Marketing Management*.

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