"Master's Thesis On"

"Effective Strategies for HR Risk Management"

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<u>CERTIFICATE</u>

This is certified that the Master's Thesis "Effective Strategies for HR Risk Management" has been prepared by Ms. Anuradha Yadav under my supervision and guidance. The project report is submitted toward the partial fulfillment of 2-year, Full time Master of Business Administration.

Name & Signature of Faculty

Date

<u>DECLARATION</u>

I, **Anuradha Yadav**, **Roll No. 23GSOB2010375**, student of School of Business, Galgotias University, Greater Noida, hereby declare that the Master's Thesis on**"Effective Strategies for HR Risk Management"** is an original and authenticated work done by me.

I further declare that it has not been submitted elsewhere by any other person in any of the institutes for the award of any degree or diploma.

Name and Signature of the Student

Date

Abstract

The research aims to explain and describe how HR involvement in risk management results in positive outcomes for an organization.

The paper follows a deductive structure by reviewing the current state of knowledge about the topic, selecting suitable theories and creating a model to be tested empirically. The theoretical approach revolves around the interconnectivity of the concepts of risk management, human resources management, decision-making processes and change management. The result of the analysis of specific theories is a model containing a risk management framework. The model is applied to check its validity and reliability in three different case studies. The first two cases contain qualitative analysis of secondary and tertiary data. The third case was built by gathering primary data through semis-structured interviews and participant observation. The data is analyzed using interpretative coding and the template application methods.

The empirical results show that the model is valid, meaning that the fundamental assumptions on which it was developed are reliable as well. The answer to the research question is that the involvement of people in the organization creates a strong culture. The risk culture is the most valuable competitive advantage that makes the important difference between bankruptcy and maintaining a leadership position.

Chapter 1 Introduction

1.1 Motivation and relevance

The topic itself is the key motivational factor for writing the paper. Human resources in risk management combine two complex concepts that taken apart may lead to a very general subject. However, linking these important parts of any organization adds value to the framework from which any business should be run.

Considering the fact that one of the most important challenges any business organization faces is handling the unexpected (Weick, K. E., Sutcliffe, K. M., 2001), risk management plays a key role in the well-being of a company. Risk management means having a long-term perspective at any business level, which is an important requirement for today's economy. Therefore, organizations with good risk management strategies are able to transform risk into advantages for their business. Even a disaster can enlighten important competencies (strong leadership, honest and transparent communication) of the business which is able to cross a critical situation. It is considered that the way in which corporate management deals with a disaster situation is much more important determinant for economic recovery than the direct economic losses imposed by the risk events (Andersen, T.J., Schrader, P.W., 2010).

However, risk management without considering the people component is irrelevant. One important principle in Damodaran's "Strategic Risk Management" book (2008) is "Managing risk well is the essence of good business practice and is everyone's responsibility" (page 376). Not only risk can be managed only by good human competencies, but also it important to involve every employee to this process. This is important because every decision in every functional area has a risk management component. The risk management culture where communication is transparent and knowledge sharing is encouraged is not a simple managerial task. Still, there is evidence that slippery slopes are frequent patterns in man-made disasters (Vaughan D., 2005). In order to avoid this kind of disasters produced frequently by people with good intentions, everybody needs to work together and have a risk management perspective can frequently produce that.

Some characteristics of a good risk taker employee can be easily identified. For example, those employees cannot be considered ideal for a stable environment. They are rush driven and motivated by

working under pressure with people reflecting the same characteristics. Challenges for their skills will result in retention and this risk-taking behavior can be seen even from an effective hiring process (Damodaran, A. 2008). However, these general aspects do not provide the necessary tools for employing and retaining motivated personnel with a good risk management perspective. Therefore, identifying the problem area consisting of the human resources' lack of a risk management perspective is the first step of the research of this paper.

The importance of an effective risk management and the lack of consistent and individual knowledge of how a specific organization should react to uncertainty have led to the creation of risk management frameworks. The risk management frameworks provide general information on the treatment of strategic risks and the involvement of all the stakeholders of the organization. However, there is too much emphasis on the role of the top management in implementing the risk culture and less about each individual's part in adopting and promoting healthy risk-taking competences (Andersen T.J., 2010a).

The literature provides a discussion about the limitations of the Enterprise Risk Management framework (ERM). ERM practices strive to provide a better version of a number of formalized frameworks including the COSO, FERMA, and AS / NZS standards. In spite of that, there is still criticism to this framework (Andersen, T.J., Schrader, P.W., 2010):

- It is a comprehensive and control-oriented framework
- It has a checklist of restrictive regulations that creates comfort and the feeling that is the only measurement needed in case something goes wrong (management considers that its job is done by simply implementing the practices)
- It constrains creativity and development of responsive solutions to continuously changing environments
- It has a heavy bureaucracy (the important downfalls being the excessive administrative costs and discouraging way that endangers a proper risk awareness culture)
- It requires high degree of centralization that leads to stakeholders lacking involvement producing lower flexibility, slowing decision-making and reducing responsiveness
- It does not take into consideration unknowable risks (which are best to be handled in a decentralized manner)

Overall, there is a major need for a conceptualized model that brings together risk assessment and human resources functions. Business strategies rely on effective decision-making processes. Experience is one of the key factors for achieving good decision-making process at each level. This implies that each individual in the business adopted the organizational culture and has the same desired mindset. Risk management frameworks so far contributed to a more risk aware top management, but may result in demotivating the other stakeholders. The researched solution presented in the thesis for this particular problem area is to find a way of motivating all the people involved in a business in becoming better resources in the risk management of an organization.

1.2 Problem Statement and Research Question

Identifying the need of improving risk awareness for the entire people component of an organization was the first step of the research. This immediately leads to the main research question of the thesis:

How can the involvement of people in the organization lead to better risk management outcomes?

The purpose is to define the role of people in risk management and discover the required competencies for pursuing an effective risk management in the organization. Nevertheless, the paper aims to identify the organizational conditions for the people to achieve their potential as the most important risk management resource of the company. In this way, the research focuses in answering the following sub-questions:

☐   What is the role of human resources in risk management?

☐   What are the competencies of an effective risk manager?

☐   What are the organizational conditions for a risk manager to be effective?

1.3 The Structure of the thesis

The outline of the thesis follows a clear path for answering the research question in a descriptively and an analytical manner. The evaluation of the concepts concludes in a newly built framework that is used to analyze specific cases. Therefore, the research is conducted starting from a deductive analysis to an inductive one.

The introduction chapter presents the relevance of the topic in the contemporary business world and states my motivation to pursue this research. The problem statement is introduced together with the research questions and sub-questions. These are the objectives of the paper. For a clearer overview, the structure of the thesis is also presented.

The following chapter includes the methodology of the research. The key concepts are described in the terminology part of this chapter. Definitions are analyzed for a critical overview of how the concepts related to human resources and risk management are stated in the literature. This will trigger a research strategy where the data sources and the methods for collecting and analyzing data are clearly presented.

The theoretical lenses are gained in the third chapter. A selection of concepts and literature will be presented and analyzed. Their interconnectivity will bring the need for a general framework that will be proposed and tested in the Analysis chapter.

The thesis ends with a Conclusion of the research. Besides stating the answer of the research question and the relevance of the theoretical framework, further discussion topics are suggested.

In this way, literature reviews set the status quo of the research of the human component in risk management while presenting the theories that are the basis for a conceptual framework. The theoretical framework is tested in business cases. The last chapters present the discussions and the conclusions of the study.

Chapter 2 Methodology

2.1 Introduction

In order to answer the research, question a deductive structure of the thesis is used, although both inductive and deductive research methods will be applied in order to obtain comprehensive evidence.

The deductive structure is following a classical of moving from a theoretical approach to the analysis of the empirical evidence, with an introductory chapter of methodology.

The research question (*How can the involvement of people in the organization lead to better risk management outcomes?*) requires a descriptive, explanatory answer. Therefore, the starting point consists of selecting and clarifying the useful concepts. This will lead to hypotheses based on the sub research questions. The theory will bring together the necessary tools for developing a model that will be used on the empirical evidence to test the hypothesis.

2.2 Definitions and Terminology

The research begins with some generally defined concepts, necessary for the early of a study. Thinking about the involvement of people in the risk management of an organization results in illustrating some concepts that captures the problematic field. Although concepts are only ideas that are expressed in words or symbols, interconnecting the concepts leads to increased validity of their usage (Mueller, 2004).

Concepts, or constructs, are ideas that represent the phenomenon. For this study, I will explore the meaning of risk management, human resources management, entrepreneurship, strategy, decisionmaking analysis, leadership, change management, motivation, recruitment, employee profile, organizational culture and opportunity management.

From the definition of the term "risk" can be observed that this noun is associated only with negative words as "loss", "injury", "peril" or "hazard" (Merriam-Webster.com). In this way, "risk management is the only type of management that consists of a negative word in the denomination. The lexical field of "risk" suggests that, in terms of management, it requires a defense strategy to deal with it. David Wilson defines risk as "The assessment, severity, amount, and nature of losses which an action may incur, whether such actions are generated within an organization (such as a decision,) or are imposed upon it

(such as a natural disaster). Risk is the measurable consequence of uncertainty for an organization" (http://www.blackwellreference.com).

In this study, risk is considered to be part of any business environment and requires careful managerial consideration. Risk management is a tool for obtaining a sense of control through risk classification and implementation and compliance with a regulation. The emphasis of risk managing has evolved to the creation of Enterprise risk management, is a new concept that summarizes risk management as an integrated, comprehensive and strategic system (Cican, 2014).

Human Resources Management (HRM) can be defined starting from the traditional concept of the personnel management. Personnel management involves the following important functions: recruitment, training, reward and compensation, performance appraisal, promotion, motivation. However, it lacks the participation to the strategic management of an organization. HRM, on the other hand, pursues all these functions with regard of the strategic performance of the company (Tayeb, 2004). Considering people as the key competitive advantage that can lead to great outcomes for any business, HRM plays an important role in involving people efficiently in the strategic decision-making of any organization.

Decision-making constitutes the fundamental part of any business activity. In simple words, a decision is choosing between alternatives. Alternatives have to be viewed in terms of risks and opportunities. Following an established plan for obtaining certain results of the decision-making process is called a strategy. Mintzberg (1987) offers a definition for strategy from five perspectives (Five Ps for strategy) in order to have a complete understanding of the term. Therefore, strategy can be viewed as a plan (a guideline to deal with a situation), as a ploy (a "maneuver" for gaining competitive advantage), as a pattern (consistency in behavior, with or without intention), as a perspective (representing an integrated way of perceiving the world), and as a position (locating an organization in the business environment).

Speaking of the continuously extending business environment, entrepreneurship is a valuable concept that needs to be mentioned. Entrepreneurship is the sum of organizational activities that aim to create, renew, or innovate within an existing or a potential organization (Sharma and Chrisman, 1999). The subjects of entrepreneurship are entrepreneurs who need to have the special skill named leadership. In this way, leadership and entrepreneurship are dependent one to another. The people mastering this desirable skill have the power to influence and motivate within an organization for greater overall results.

Motivation refers to the process describing the reasoning behind human behavior. The first perspectives on motivation are rooted in psychology, Sigmund Freud being considered by some authors the founder of the motivational theory. The economic perspective stated by Adam Smith presented the idea that motivation is like "the invisible hand" that encourages people to follow their own interest in gaining enough to cover their lives necessities. Federick Taylor was the founder of the Scientific Management. He sustained Smith's theory on motivation and adopted it in research about employee's efficiency. Taylor took the view that there is a best way to perform any task and it is management's job to determine the right way (Ghinea, 2011). This relates to an autocratic organizational culture, which is outdated. As it has been shown in numerous studies, organizational culture has a great influence on the performance of a company as large-scale and slow-moving aspects of culture can affect correspondingly large-scale and slow-moving economic activities (Martinez et al, 2015). Therefore, a lot of research has been made on achieving an efficient organizational culture. The basic idea is of aligning beliefs and values across an organization.

Obtaining a strong organizational culture is firstly done by hiring personnel compatible to the existing vision, mission and set of values. Recruiting is probably the most popular function of HRM. Still, in order for the recruitment process to be efficient, clear aspects of the potential employee profile need to be defined. All these concepts will be analyzed in relation one to another in order to develop a framework with the aim of obtaining desired risk managerial outcomes.

2.3 Research Strategy

The general research strategy for the study is the deductive strategy. The deductive reasoning starts from the premise that the human resources (the people) are the most important part of the risk management of an organization. In order to answer why it is important, I will make use of the existing theory, develop a model and test it. The assumptions for the deductive reasoning are the following:

- The people are the most important part of risk management
- Organizational risk management requires the involvement of all the stakeholders
- Risk management requires the adoption of different roles of the human resources
- There are specific competencies required for pursuing effective risk management

☐   An organization should be able to assess the competencies of their (potential) employees necessary for an effective risk management for their business

☐   There are specific organizational factors that promote effective risk management

☐   An organization should be able to provide the necessary work conditions for effective risk management

☐   Effective risk management provides desired outcomes for every business level of an organization.

Although the deductive strategy is a safer way of pursuing a study, the research question of this thesis requires the use of inductive reasoning. The analysis of the case will constitute an inductive approach to the study, as the conclusion will be drawn after qualitatively analyzing one case study. In this way, empirical knowledge will establish limited generalization.

Nevertheless, the thesis has a secondary objective of discovering the point of view of those involved in risk management, especially in regards to the case study. The abduction research strategy seems appropriate in this way for answering the "what" questions of the research (What is the role of human resources in risk management?; What are the competencies of an effective risk manager?; What are the organizational conditions for a risk manager to be effective?).

Considering the abduction approach, from an ontological point of view, the assumption is that the researcher is Idealist. The reality is created in the mind and shared through interpretations. Still, I believe knowledge may require the formulation of structures and/or mechanisms (logic reasoning) to explain consistency; therefore, I adopt a neo-realism epistemological assumption for the study.

2.4 Data and methods

For this study, all types of data will be used. Primary data will be gathered and analyzed in respect to the non-probabilistic sample of the risk management behavior of the employees of a service company. This will represent the case study of the research. Secondary data will emphasize the

conclusions given by the empirical evidence, whereas tertiary data from business reports or scientific articles will also be used for developing and analyzing the model applied on the case.

The timing for the data will be longitudinal. More specifically, the thesis will comprise a cohort study where the subjects (selected based on common experience: working in the same organization) will be observed over a period of 2 years.

Collecting data will consist of gathering qualitative data enriched by secondary quantitative studies. An embedded mixed method will be used as quantitative data is only a supplement. Using a mixed research method will have the advantage of covering both the main and the sub research questions, in a way that the weakness of one method will be annulled by the use of the other. For example, the lack of generalization of using limited qualitative data is overcome by quantitative studies.

The choice of methods for the qualitative collection of primary data is semi-structured interviews and participant observation, whereas for the quantitative data, content analysis, and structured observations will be used based on secondary and tertiary data.

The reduction for the quantitative data will be done through cluster analyzes. The goal for using the qualitative data is to develop themes in a compatible way for applying the conceptual model.

The analysis of the data consists on testing the applicability of the conceptual model in three case studies. Two studies can already be found in literature. To increase reliability for my research, I will also use a case study of the risk management perspective of the employees of a company activating in a service field. The research question requires a descriptive and an explanatory solution in a flexible and contemporary environment, where I, as a researcher, have little control. A case study can bring important inputs for answering a "how" question as the one in this research. Observation and qualitative oriented interview are the methods that constructs this study.

The deductive approach in the case study will consist of applying a theoretical model and analyze its validity. The unit of analysis is the employees of a business unit of the organizations (two of them operating in the service field and one in the production). The context is focused on the risk management mind frame in the service field. The choice of third case study is motivated by the fact that it is a revelatory case of a typical small-medium business organization with a clear organizational structure and leadership style.

2.5 Limitations

There are limitation regarding the scarcity of resources allocated to this study. For example, the duration of the research was only six months. Nevertheless, there were barriers in gathering empirical data as the focus was on the soft aspects of HRM.

The business perspective of people in the risk management also limits the study. The psychological implications are discussed, but there is a lack of focus in this part of the research, that can be further developed.

In the cases studies, the managerial point of view is usually absent. The purpose of the analysis is shifted to emphasis the role involving all the people in the organization, which creates the appeal of focusing on the front-end personnel.

Another limitation in the empirical approach is that the case studies have different time frames. The Nokia case is cross-sectional, whereas the others are longitudinal. Moreover, their business activities are take place in different time periods that creates different external factors. For example, Nokia is presented before the economic crisis, as for Lehman's bankruptcy, it is concurrent with the economic instability.

Chapter 3 Theory

3.1 Literature review

In the following section, I will discuss the current state of knowledge on the topic based on a comprehensive literature review. In order to create a risk management model, a careful analysis of the current international risk management standers (ISO, IRM-ARM and COSO). Nevertheless, there will

be discussed paradigms and epistemological/ontological aspects of various authors that contributed in the Risk Management and Human Resources Management fields.

3.1.1 Risk Management Standards and Frameworks

The risk management framework is a set of components that provide the basis (policies, principles, and processes) for designing, implementing, and continually improving risk management throughout the organization.

ISO 31000:2009 Risk management — Principles and guidelines

ISO (the International Organization for Standardization) is a worldwide federation of national standards bodies (ISO member bodies) with the purpose of creating International Standards. They provide a framework for the organizations to develop, implement and improve in order to integrate principles and processes of risk management in all the business activity they pursue. Nevertheless, the companies need to follow established principles to obtain an effective management of risk. ISO provides important definitions of the terms in the semantic field of "risk" so that the principles can be easily understood and implemented.

Uncertainty produces risk that can affect an organization's objectives in a positive or a negative way. Risk is associated with the occurrence of events. This means, that in order to analyze it, frequency and consequences of the risk need to be established. Coordinating these activates refers to risk management. Risk management represents the architecture (principles, framework and process) for managing risks effectively, while "managing risk" refers to applying that architecture to specific risks.

ISO is proposing the following principles, framework and process steps synthesized in Figure 1.
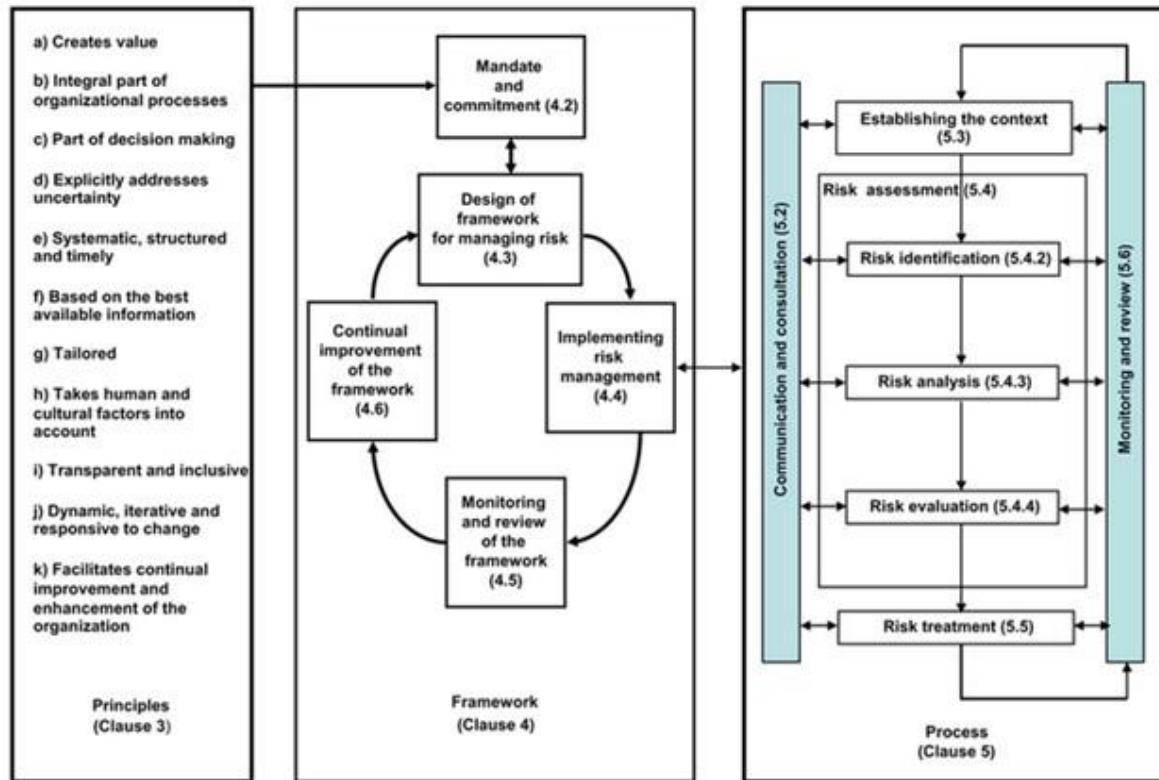
Figure 1, The overview of ISO principles, framework, process (https://www.iso.org/obp/ui/#iso:std:iso:31000:ed-1:v1:en)

One important principle is that risk management should be considered at every stage of the decision process. However, they say that decisions are made by all the people involved in the organizations, but the terms "inclusive" and "integral" fail to advocate the importance of the human factor in risk management as part of the key principles. It does state that Risk Management should take human and cultural factors into account, but it does not emphasize on their importance, although effective risk management means being part of the organizational culture.

The proposed risk management framework presents the role of management in initiating and controlling the implementation of ISO. Implementation of any change in an organization requires the following sequence of steps: preparing the context, planning, implement, monitor, and improve. In this particular framework, risk management is introduced in an organization by establishing and committing to a risk management policy, formulating risk management objectives, and delegating risk management responsibilities. Implementing risk management requires a systematic process in which communication plays the most important role.

The first stage of the risk management process is establishing context. This means defining the external and internal parameters for analyzing risk, and setting the scope and risk criteria for the risk management policy.

The risk assessment has three intuitive stages: risk identification, risk analysis, and risk evaluation. The process ends when the risk is "treated" which triggers the start of a new cycle of monitoring risks.

COSO Enterprise Risk Management - Integrated Framework

COSO stands for Committee of Sponsoring Organizations of the Treadway Commission. The framework aims to help businesses organizations and other entities to assess their internal control systems focusing on Enterprise Risk Management (ERM). ERM represents:

☐ A process, ongoing and integrated through an entity

☐ A process effected by people at every level of an organization

☐ Strategy setting

☐ A framework applied across the enterprise, at every level and unit

☐ Risk oriented policies to identify potential events that, if they occur, will affect the entity and to manage risk within its risk appetite

☐ Assurance to an entity's management and board of directors

☐ Achievement of objectives

In other words, "Enterprise risk management is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives" (http://www.coso.org/documents/COSO_ERM_ExecutiveSummary.pdf).

This comprehensive definition of ERM provided by COSO provides similar ideas to those of ISO principles. Still, unlike ISO, COSO stipulates that people at each level effect ERM, which illustrates integrity. However, the use of the terminology "other personnel" as an auxiliary of the

management in the definition of ERM shows the lack of emphasis on the important role of people for the implementation of the framework and undertaking effective risk management.

The model for applying COSO ERM framework can be seen in figure 2. The three-dimensional overview settles the most important parts of the framework. COSO relies on categorizing objectives (strategic, operations, reporting and compliance) and the components help in achieving them.
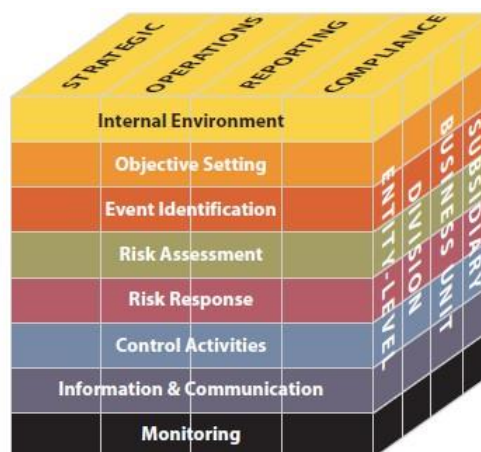

Figure 2, The overview of COSO objectives' category and components at every business units
(http://www.coso.org/documents/COSO_ERM_ExecutiveSummary.pdf)

The components include the steps of the process demonstrated by ISO. Moreover, there are components included the previous set of standards, but only as auxiliary elements: Internal environment and information and communication. These components are more relevant to the workplace environment and the information flow along it. The internal environment sets the basis for how risk is viewed and addressed by the people of an organization, encompassing the risk management philosophy and appetite, integrated with the ethical values. This can be linked with the role of people that are supposed to be aligned with the risk management approach of the organization and to be able to communicate at every level of implementation of a risk management framework.

The responsibility of assessing risk is spread around the entire organization. In this framework, as in the ISO, the focus is on the management implementing any change in regards to risk management. COSO considers that the Chef Executive Officer (CEO) needs to assume ownership for ERM. The rest

of the personnel is responsible for executing ERM in accordance with established directives and protocols. In conclusion, COSO ERM framework is suggesting a centralized managerial style with protocols easy to implement, but with little attention to the importance of all the people in an organization.

<u>IRM - Risk Management Standard</u>

The Institute of Risk Management (IRM) proposes a form of standard to ensure that there is established terminology, process by which risk management can be carried out, organization structure for risk management and objective for risk management.

Starting from the definition of risk provided by ISO (combination of the probability of an event and its consequences), IRM contributes by having a positive approach in regards to the effects produced by uncertainty. In every business activity, there is the potential for events and consequences that constitute opportunities for benefit (upside) or threats to success (downside). It states that as Risk Management is increasingly starting to adopt the role of focusing on with both positive and negative aspects of risk, this framework will do the same.

In order to assess risks and consequences both negative and positive, IRM standard recommends categorizing the risk, according to the driver of them. In this way, risks can be externally or internally driven. Nevertheless, the main types of risks that a business needs to consider are financial, strategic, operational and hazard.

In this Risk Management Standard, the framework in figure 3 is suggested to deal with any type of risks. This Risk Management Process starts from setting strategic objectives for the organization (as ISO framework stipulates as well). For the risk assessment, there are the main steps that can be found also in other two risk management frameworks, although with denominated differently, but intuitive. These include analysis, identification, description, estimation, and evaluation. There is an emphasis on analyzing both risks and opportunities, the role of the decision-making and of the continuous improvement.

Figure 3, IRM – Risk Management Process

(https://www.theirm.org/media/886059/ARMS_2002_IRM.pdf)

Communication and distribution of roles among the company are only brought into the discussion after the risk assessment is over, at the risk-reporting phase. It is discussed the attributions of the individuals of the organization in regards with this task of reporting risk. The following responsibilities are mentioned:

☐   understanding the accountability of individual risks

☐   enabling continuous improvement of risk management response

☐   considering risk management and risk awareness as a key part of the organization's culture

☐   reporting systematically and promptly to senior management any perceived new risks or failures of existing control measures

The Risk Management Standard proposed by IRM has overall more focus the people's role in the risk management. The approach is a practical one, and although COSO framework depicts the importance of communication in every business process, IRM has clear steps and techniques to undertake efficient risk management policies.

Synthesizing the analysis of the three frameworks

As a conclusion of my analysis, I created a table (Table 1) with the most important elements of the frameworks that were to be further discussed in this study. The table shows that even though some important subjects are tackled in the description of the risk management processes, there is a lack of practicalities on integrating all the personnel in the risk management or choosing the right leadership style to perform the implementation of the frameworks/standards.

Table 1, Frameworks analysis

Key elements / Frameworks	ISO	COSO	IRM
Role of the people	Stipulates only to be taken into account along with the cultural factor	Everyone is responsible, but in a centralized way, suggesting a tall organizational structure	In regards to risk reporting, the personnel should be able to understand their role in RM and make it part of their culture. Does not mention how.
Organizational culture	It is an important factor to be considered as a principle. No practical inputs on how risk and culture relate.	Advocates for how risk assessment should be part of the values of the organization and for the importance of the internal environment.	Risk management and risk awareness are a key part of the organization's culture.
Leadership style	Authoritarian	Participative	Participative

Change Management Process (implementing a RM framework as a change: steps and important elements)	Risk identification Risk analysis Risk evaluation Risk treatment (establishing context, monitor, continuous improvement, communication)	Event identification Risk assessment Risk response (monitor, information, communication)	Risk identification Risk description Risk estimation Risk evaluation (monitor, continuous improvement)
Strategy	Lack of strategic approach.	Setting objectives is the first step. It creates the category of strategic risks.	It stipulates setting strategic objectives.
Decision-making	Consultation is an ongoing part of the process.	Considers decisionmaking as a limitation of ERM due to potential human failure.	It is mentioned as a phase in the risk management process.
Opportunity Management	The first principle is to create value. Lack of focus on opportunities.	Seizing opportunities is considered one of the ERM functions.	Risk is considered from both perspectives. There are reported both opportunities and threats.

3.1.2 Human Resources Management functionality

The literature review in this section aims to answer the sub-question related to the role of human resource management in assessing risks. It is analyzed the traditional functions of HRM together with the new directions of conducting the people of the organization to effectively manage risks.

Human resources have a double value in terms of risk management. On one hand, it represents the key for solving any risk related problem (people's capabilities) and, on the other hand, it can be viewed as the source of the most important risks. Identifying the management of HR risk is one of the most important opportunities that HR practitioners have for adding value to the organization they represent.

A possible definition for risks related to human resources is given by Meyer et al (2011). A human risk represents any people related, cultural or governmental factor causing uncertainty in the business environment that could adversely affect the organization's activity. It includes company culture, talent vacancies and retention, employee performance, unethical behavior, low morale, conflict and disputes, absenteeism, employee wellness, sabotage or corruption, workplace violence, as well as noncompliance with industry and other regulations and laws.

However, HR is a source of continuous generation risks. For example, trying to manage one risk by keeping the employees motivated by providing benefits as a flexible schedule can produce another risk. A relative recent study shows that labor flexibility practices fuel both instability in employment and inequality in society (Lambert, 2008). New employment laws and social policies are needed for softening the risks locked into today's service economy. The fluctuations in hours and in income for workers and their families have reached an exaggerated level and employers should be willing to participate to this social change.

There seems to be enough evidence in the literature that organizational decisions about work hours, health insurance, layoffs, job design have profound effects on employee physical and mental health and even people's life spans. The employees' health-related risk is an important factor for a sustainable business. In this context, Pfeffer (2010) argues that "we should care as much about people as we do about polar bears" (p.43). Health is considered an important indicator of well-being for both individuals and societies; therefore, starting from the basis of the Maslow's pyramid we can deduct the needs of the employees and in this way, the functionality of the HRM.

One of the most important functions of HRM is to motivate. Motivation refers to the process describing the reasons behind the human behavior. The motivation theories start from the following premises (defined by Federick Taylor):

- people dislike work
- people will only work for money
- extra effort must lead to greater reward
- people are not capable of controlling their work or directing themselves
- simple, repetitive tasks will produce the best results
- workers should be closely supervised and tightly controlled

Workers gain from this approach because the "right way" is easier and pay is enhanced because of increased efficiency (Ghinea, 2011). We have distanced from these roots of motivation, but there is more to be done in order to be able to motivate people into efficient risk assessment.
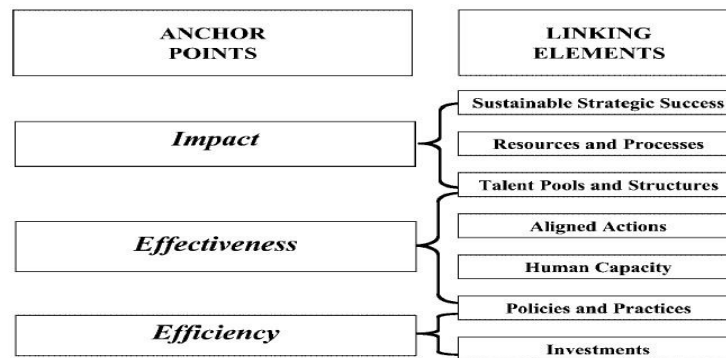

Figure 4, Decision Framework
Boudreau, J.W. & Ramstad, P.M. 2005, p. 132

Another key function of HRM is recruitment. There are two paradigm shifts to be discussed here: talentship and sustainability. Boudreau et al (2005) provide a model for effective recruitment (Figure 4).

The model is based on the premises recruitment is about making decisions. In this way, the authors consider that talentship (the decision science about human capital) determinates the success of an organization. Talentship includes talent segmentation and identifying talent pools where the quality and/or availability of human capital is in accordance with the strategy of the company. The recruitment process needs also to be sustainable (bring success today without compromising the needs of the future).

Still, any decision represents a risk source. HRM not only needs to be able to make the strategic decisions, but also to assess the risks involved. The ISO 31000 international standard on risk management gives a useful frame of reference to assist HR directors to place HR strategy within the context of risk management. The document recommends that HR practitioners become directly involved in (Meyer et al, 2011):

☐ making risk management an integral part of the organizational processes, including the change management processes

☐ considering human and cultural factors and, more specifically, recognizing the capabilities, perceptions and intentions of external and internal people who can facilitate the achievement of organization's objectives

☐ supporting managers to ensure that companies align their culture and risk management policies ☐supporting performance management by assisting managers to determine the risk management performance indicators that align with the performance indicators of the organization

☐ acting as drivers to ensure legal and regulatory compliance

☐ building capacity for effective risk management (employee induction and training in managing risk)

☐ establishing appropriate organizational structures with clear roles and accountabilities for managing risk

In conclusion, HRM should adopt risk assessment framework (as the one illustrated in Figure 5), a conceptual model for systematically developing and planning HR risk management actions in an organization. In the model it is represented the role of HRM in pursuing effective RM.
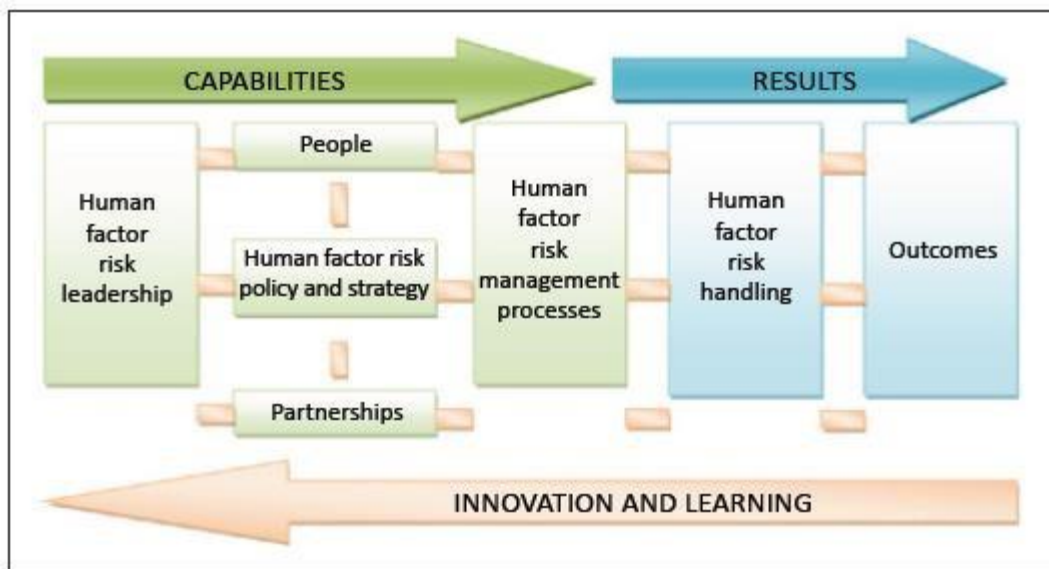

Figure 5, Human Factors Management Assessment Risk Framework

Meyer, M., Roodt, G. & Robbins, M. 2011, p. 318

3.1.3 The link between HRM and RM

Although the role of HRM in RM has been discussed, this part of the literature review has the purpose of making the firsts steps in answering the research question of the study. HRM focuses on people, but it needs to adopt the task of pursuing risk management. This means that all the people need to be involved in the risk management process, as the connection between these two concepts is so strong, it makes them inseparable.

It was already emphasized in the paper that risk management is part of everyone's job. This is because every decision in every functional area has a risk management component. In other words:
"Managing risk well is the essence of good business practice and is everyone's responsibility" (Damodaran, 2008, p. 376).

Engaging all the people in the organization can be only a HRM function. HRM has the capabilities to motivate and train, and nevertheless hire people to have a risk management perspective. The implication of HRM in risk management determines risk management to involve human resources risks.

New regulations (especially in the banking industry) require companies to include HR risks in their risk management systems, in this way expanding the existing risk management systems (Paul, 2008).

When discussing HR risks it is hard not to consider the psychological implications. Risk affects people and the diversity of psychological characteristics determines different risk-taking behavior. One important factor that affects risk perception and risk attitude is emotion. Kugler et al (2012) conducted some experiments to examine the effects of two emotions, fear and anger, on risk-taking behavior. There were two types of situations: Those in which uncertainty is generated by a randomizing device ("lottery risk") and those in which it is generated by the uncertain behavior of another person ("person-based risk"). The results were that fearful participants tended to make more risk adverse choices than did angry individuals. The opposite only happened in the experiment including Stag Hunt Game (choosing independently between a safe option that guarantees a moderate payoff and a risky option that yields a higher payoff if both participants choose it, but a low payoff to the risk-taking participant if

the other chooses the safe option). Angry individuals were more likely to take the risky option than were fearful ones if the game was blind (by a lottery risk rather than a person-based risk).

In this way, we need to consider the emotions of the employees and know that in general fear will create a risk adverse attitude. Nevertheless, it is very important to understand that people influence one another. Therefore, an ideal work environment should consist of people with similar skills and characteristics and were teamwork is promoted.

Therefore, for obtaining effective risk management, HRM should control risk taking of the employees considering the following factors:

☐   Organization size: small companies are better in offense; big companies are better in defense ☐Organizational structure: flatter better for handling information and quick response; less compartmentalization; diversification is risk-averse;

☐   Organizational culture: treat failure and success as components, not opposite (one cannot exist without the other); odds of success improve if tolerating failure; (Damodaran, 2008).

However, beyond these factors, HRM has the role of training and recruiting people with the most desired risk management skills. Lazzerini et al (2013), managed to develop risk sensibility profiler that helps illustrating possible interrelations among risk perception, risk propensity, and risk-related decisionmaking. A risk sensibility profile is a particular configuration of the criticality factors and the specific behavior towards one or more risks. By automatically discovering the typical ways in which workers perceive risks and would react to them, a risk management trainer can strategically adopt a training process specifically tailored to each worker's needs.

3.1.4 Decision making in the RM context

The previous subchapter demonstrated the codependence of HRM and RM, which is part of the answer to the research question of the study (How can the involvement of people in the organization lead to better risk management outcomes?). HRM expertise facilitates the involvement of the stakeholders of an organization into risk management issues. Without the dedication of everybody involved to act from a risk management perspective, the desired outcomes can be compromised. Still,

people are automatically involved in assessing risks when making decisions. Therefore, the key to answer entirely the research question relies in the concept of decision process.

Risk is always part of the decision process, but it goes the other way around as well. In the book "Strategic Risk Taking: A Framework of Risk Management", Damodaran (2008) explains that one of the good risk assessment should lead to better decisions. Risk assessment means raising awareness of the risk (not eliminate it). Risk should not become an excuse for poor decisions, but on the contrary, it should increase the feeling of being uncomfortable with the decisions. This is also because risk should be assessed as a complete concept, considering both the upsides and the downsides.

Still, it has been showed that more information lead to more uncertainty, and psychologically, we are biased when making decisions. For example, people overestimate small risks but ignore very small risks. Serious consequences can appear from this. Reyna (2004) argues that many health and safety problems, including war and terrorism, are the results of how people reason about risk. The researcher proposes a new approach to handle risk that implements a dual-process model of memory called fuzzytrace theory. The duality comes from the existence of two types of mental representations about a past event: verbatim (detailed) and gist traces (fuzzy). Gist-based reasoning is robust when dealing with ambiguity and it develops with experience. Therefore, making use of it will result better decision making when outcomes are uncertain.

The decision processes can benefit from numerous techniques found in literature. However, the outcomes cannot be the criteria for judging the quality of these processes. Studies show that positive outcomes are not always the result of effective decision-making processes. Near misses should also be considered. Successful outcomes in which chance plays a critical role in averting failure are a common phenomenon. A research made by Dillon et al (2008) shows that managers whose decisions resulted in a near miss are evaluated more favorably than those whose decisions resulted in a failure. However, interpreting near misses as successes means not seizing the opportunity of learning and gaining experience, which has a negative impact on future decision making. This happens because near misses separate (lower) perceived risk from statistical risk. Near misses may trigger associative processing that focus attention on case-specific information rather than on the base-rate probabilities, and they may encourage people to move forward despite greater risk.

In conclusion, people should contribute to better risk management outcomes by making better decisions. However, effective decision-making processes are only the ones where risk is accurately assessed.

3.1.5 Effective Risk Management

One of the auxiliary research questions of the thesis strives to identify the competences of an effective risk manager. Intuitively, I considered leadership and entrepreneurship competences together with the ability of adaptation to change and strategy focus to be the vital conditions for a manager with good risk outcomes. The literature review is based on these concepts.

Entrepreneurship is a concept where risk is an important player. An individual will become an entrepreneur if the expected rewards exceed the wages of employment. However, these financial outcomes depend very much on the risk attitude of the person. Van Praag et al (2001) created a model that demonstrates that the more risk-adverse the individuals, the smaller the chances are for them to become entrepreneurs. Other findings include the fact that success in entrepreneurship requires intelligence and general ability, which depend on the family background, education and personal traits.

Therefore, chances are that the people in the organization who need to implement risk management are actually risk adverse (as they are not entrepreneurs). Probably the risk aversion comes from the fear of change. Levasseur (2001) suggests using Lewin's Change Model to overcome these issues. It is argued that successful change enablers rely on tools as Kurt Lewin's simple three-step change model. In a few words, changing behavior starts by unfreezing the existing situation. Only then can change, or movement, occur. Finally, to make the new behaviors be permanent, a refreezing step is necessary.

In order to implement any change management process, besides a good model, leadership skills are required. The leadership challenge is to align the bottom-up processes with top down objectives. This means knowing how resources should be allocated.Bower et al (2001) consider that this is how you drive strategy in an organization. The authors also provide six recommendations for strategy management (p. 77):

☐   Understand the people who play a role in the proposals

☐   Recognize the strategic issue, and make sure it is addressed

☐   When a debate reflects fundamental differences about the strategy, intervene

☐   Use operational managers to get work done across divisional lines

☐   The leadership has to connect the dots

☐   Create a new context that allows leadership to control the regular resource allocation process (most out-of-the-box or disruptive ideas are badly handled by a bottom-up resource allocation process)

The recommendations are compatible with what Andersen (2010a) is suggesting. The researcher considers that a combination of centralization and decentralization constitute an effective integrative strategy approach in dealing with contemporary risk environments characterized by uncertainty and unexpected events.

3.1.6 Risk Culture

Implementing a risk culture is a necessary organizational condition for pursuing effective risk management. The following selection of literature review discusses the notion of organizational culture from a risk management perspective in order to answer the final sub question of the thesis.

Risk culture could be defined as the organizations willingness to take risks as perceived by the managers in the organization. The perception creates the culture, even more than any tangible and documented set of decisions or actions taken by organizational actors could do. This is because it is the perceptions that provide the signs to acceptable behavior (Bozeman, Kingsley, 1998).

Rundmo (1996) considers that there is a significant positive correlation between perceived risk and risk behavior. There is not enough evidence to argue that risk perception predicts risk behavior. The researcher states that safety cannot be improved by changing individual risk perception.

Bozeman and Kingsley (1998) studied the determinants of risk manager culture starting from the hypothesis that public sector managers are more averse to risk than managers in the private sector are. Some of the factors of risk culture include political control, nature of reward systems, levels of formalization and red tape, bureaucratic structures, and goal ambiguity. There is considerable variance

in organizations' risk culture, but the sector of an organization could provide information for a first impression about the risk management conducted.

One of the findings of this study relates to the idea that a riskier culture is positively related to the willingness of top managers to trust employees. Managers who show trust in their employees promote employees who will take calculated risks. Even if there is otherwise a high degree of internal managerial control, trust is likely to produce risk-taking. Nevertheless, if goals are clear, people take risks.

Another result of their study consists in the fact that red tape and formalism diminish risk. The explication for this causality relationship could be that red tape makes risk a much poorer cost-benefit proposition. Potential risk takers calculate risk in order to identify the gain. If there is confidence in obtaining a reward, a promotion or some form of recognition, then the risk taker is more likely to be acting in self-interest (which can be translated into being more rational), better informed, and, generally, better at making decision.

The conclusion of the Bozeman and Kingsley (1998) research is that public managers differ little from private sector managers in their risk orientations and, indeed, the respective sectors' risk orientations seem a function of an identical set of variables. The risk culture facilitating factors (goal clarity, employee trust, and cutting red tape and formalism) are successful in both sectors.

Still, there are many other conditions to be discussed related to risk culture. Perceived risk and risk behavior were factors that influenced safety and contingency measures together with physical working conditions, attitudes towards safety and accident prevention work as well as management commitment and involvement in safety promotion. Risk behavior affects accidents as well as near misses (Rundmo, 1996).

Near misses also have a great impact on the risk culture. The research made by Dillon and Tinsley (2008) shows that people with near miss information make riskier choices than those without this information. This is because the near miss events results in a lower risk perception in a decision situation. The issue identified by the authors is that many potential failures are disregarded. However, in complex systems with failure potential, near misses provide the opportunity to correct mistakes before they become catastrophes. This can be done by separating the successes and examine the vulnerability of the system.

To sum up, the key aspect of the risk culture where a manger can conduct the most effective risk related actions is in perceiving risk as an opportunity. Opportunity management can bring better risk management outcomes than handling risk in a defensive manner.

3.2 Discussion of suitable theories

The selection of theories is meant to put the basis for the model creation. Theories are sets of concepts and the relationships assumed to exist among the concepts. Important theoretical aspects of risk management and human resources management are to be discussed in this subchapter. As risk management is strictly connected with decision-making, some theoretical grounds are set in this field as well. Nevertheless, as change is the only constant in business people handling risk need to have a change management perspective. In this way, the change management theories will be the binding element for the rest of the concepts presented. The following theories and conceptual models will be the main inspiration for the framework of this thesis.

3.2.1 Risk management theory

The following section has the purpose of setting the theoretical ground for associating risk management with human resources management. In order to achieve this, theoretical part of risk management will be presented.

First, the subject of risk management can be classified for a thorough understanding. Risks are divided as it follows (Servaes et al, 2009):

☐ Market risks (price movements in financial markets: interest rate risk, foreign exchange risk and commodity price risk, pension fund shortfalls).

☐ Commercial risks (operational: failures of internal processes and actions by competitors) ☐External event risks (not necessarily related to firm: natural catastrophes or changes in tax or regulatory policies)

Secondly, any organization has to face risks. Risk management has to role of assessing and handling risks. Still, the benefits of risk management should be considered in relation with its costs. Table 2 shows the both sides of risk management.

Table 2, Costs and benefits of risk management

Adaptation from Servaes et al, 2009

Benefits	Costs
reducing costs of financial distress	product costs
avoiding the corporate underinvestment problem	lost upside
increasing corporate debt capacity	trading losses
reducing tax payments by stabilizing income	organizational costs
communicating information to investors	communication challenges

Moreover, a key concept in risk management is the risk management function. Servaes et al (p. 65, 2009) provides its definition: "The corporate risk management function is generally viewed as the set of methods and procedures by which executives identify the kinds and levels of risk exposures faced by their companies, and then choose which exposures to bear and which to transfer to others through a variety of risk management techniques". The question that remains is how to manage risk management functions. There are some best practices guidelines:

☐ Derivatives and risk management activities should be consistent with board-approved policies and be overseen by senior management

☐ End users should periodically mark their positions to market, forecast cash investing and funding requirements arising from transactions, establish clear risk limits, and use stress testing and simulation ☐End users should establish a clearly independent and authoritative function to design and ensure compliance with prudent risk limits

☐ Ensure that risk management activities are executed by professionals with the appropriate experience, skills, and specialization

☐ End users must have systems that measure the risks incurred through their transactions

☐ End users must have a clear identification of who is authorized to enter into derivative transactions

From the previous recommendations, it is clear that risk management responsibility spreads down to the people in the first line of management. Their role is the most important in pursuing effective risk management. The theories supporting human resource management as a facilitator for integrating all the people in the organization in the risk management are presented in the following two subchapters.

3.2.2 Human Resources Models

In order to understand the basis of Human Resources Management, some of the most known models are reviewed. Tayeb (2004) presents the selection of the following five:

☐   Matching Model

It highlights the resource allocation part of HRM and emphasizes the efficient utilization of human resources to meet organizational objectives.

It also focuses in finding the right connection between organizational strategy, organizational structure and HRM systems.

☐   Harvard Model

It stresses the soft aspect of HRM being more concerned with the employer–employee relationship.

It illustrates the interests of different stakeholders in the organization (shareholders, management, employees, government, community, unions) and how the personal goals are related to the objectives of management.

☐   Contextual Model

It is based on the premise that organizations may follow a number of different strategies in order to achieve the same results, due to the existence of a number of connections between external environmental context (socio-economic, technological, political, legal and competitive) and internal organizational context (culture, structure, leadership, research and development).

It claims that the link between the external and the internal environment contributes directly to forming the content of an organization's HRM.

☐   5-P Model

It combines five human resource activities (philosophies, policies, programs, practices and processes) with the strategic needs of the organization.

It shows the interdependency of these activities and explains their significance in achieving the organization's needs.

☐   European Model

It is based on the argument that European organizations are constrained at international (European Union), national level by national culture and legislation factor, at the organizational level by patterns of ownership and at the HRM level by trade union involvement and consultative arrangements.

It states that these constraints need to be accommodated while forming a model of HRM.

3.2.3 Human Resources Measures supporting Risk Management

The both sided relationship between HRM and RM has already been discusses. Still, the following theoretical approach aims to identify specific functions of HRM that directly improve RM in an organization.

Servaes et al (2009) suggests three areas of opportunity for improving corporate risk management:

☐   Incorporate risk management with the mind frame of the strategic planning process (flexibility should be included in the business plan and its execution by making everyone in the organization more sensitive to risks)

☐   Clearly define the objectives of the risk management function by developing appropriate benchmarks (the risk management process should be subject to the same rigorous evaluation process used when measuring risks throughout the business)

☐   Create a risk management culture throughout the organization (while an effective risk management function is necessary, only when employees at all levels of the company embrace risk management as part of their daily operations will the firm get maximum value from risk management)
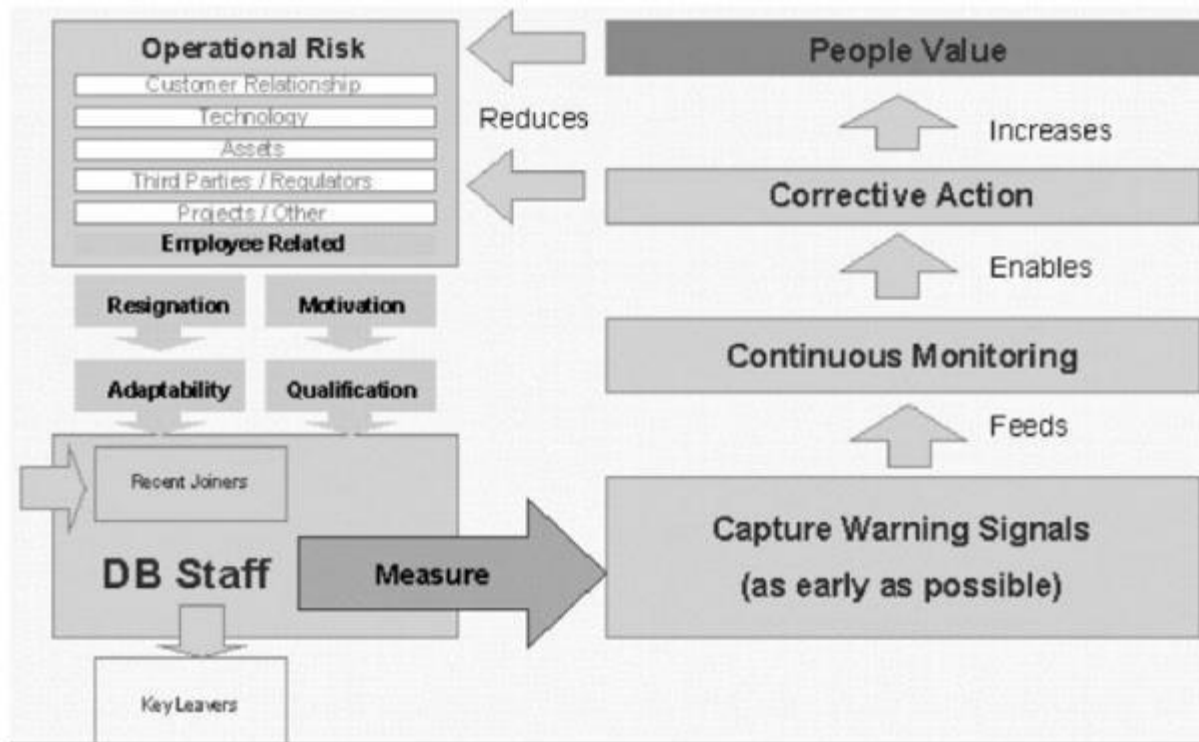
Figure 6, Managing operational risk

Fischer, H. &Mittorp, K.D. 2002, "How Hr Measures Support Risk Management: the Deutsche Bank Example", p. 484

The last recommendation is the most relevant to the paper and a valid evidence for the importance of HRM in the risk management field. There are potential operational risks related to employees mostly in the areas of motivation, adaptability, qualification, and resignation. Nevertheless, within these risk categories, losing key people (the top performers within a group or division) can be considered the most serious and costly risk exposure. A case study on a Deutsche Bank made by Fischer and Mittorp (2002) shows that the cost of losing a key individual, is higher than 1.5 times the individual's annual pay. Therefore, a measurement system that captured potential risks warning signals as early as possible by continuous monitoring the relevant parameters to enable corrective action is needed. The researchers created the model in Figure 6 to manage operational risk using HRM functions, applied on Deutsche Bank (DB), which can be easily generalized to any organization.

In conclusion, measurement of the HR risks is an aim in itself. One of the best practices to learn from this case is the importance of making the information relevant and useable for line managers. The reason for this is not only to ensure that concrete action is taken, but also to help management gain an

increased awareness of the need to continuously manage HR-related risk in their respective areas of responsibility. To illustrate these last findings, Fischer and Mittorp (2002) created the model in figure 7 to emphasis the importance of HRM.
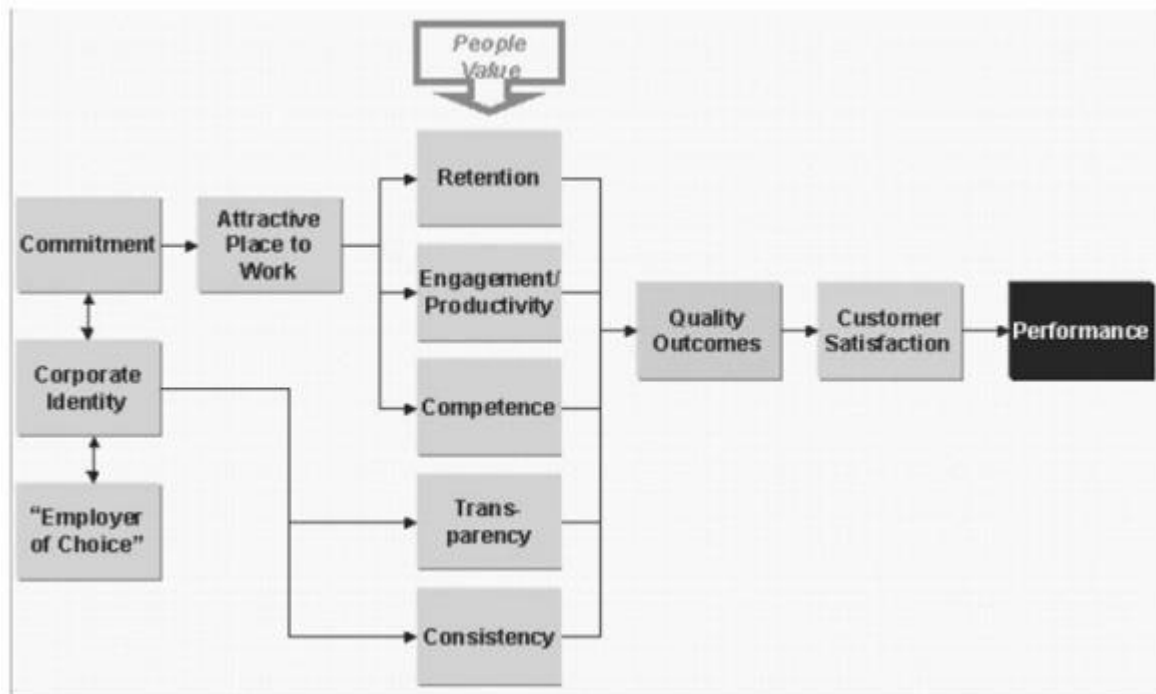

Figure 7, The underlying approach of quality in HRM

Fischer, H. &Mittorp, K.D. 2002, "How Hr Measures Support Risk Management: the Deutsche Bank Example", p. 485

3.2.4 Business Decision Processes

A research made by March and Shapira (1987) illustrates that managers not only fail to follow the rules of decision theory, but also that the ways they think about risk cannot fit into classical theoretical conceptions of risk. In this way, managerial risk taking behavior is a field that needs more attention. The researchers conclude that the most troubling feature of decision theory in risk context is the encouragement of managerial passivity. By emphasizing the calculation of expectations as a response to risk, the theory poses the problem of choice in terms appropriate to decision making in a world without control, rather than in a world that is subject to control. Hence, decision makers may become passive with respect to modifying the probabilities they face.

However, new perspectives were developed in the decision making field since 1987 and Kahneman's contribution was very valuable. Loss aversion theory (people's tendency to fear losses more than they value gains), for example, was one of his greatest work.

Nevertheless, the Kahneman (2011) wrote also about availability emotion and risk. The concept of availability cascade is a self-sustaining chain of events, which may start from media reports of a relatively minor event and lead up to public panic and large-scale government action. The relationship of this concept with risk is in terms of resetting priorities. When availability cascade happens, other risks, and other ways that resources could be applied for the public good, are fading into the background. However, availability cascades may have a long-term benefit of drawing attention to specific high-risks and of increasing the overall size of the risk reduction budget. The researcher argues that psychology should inform the design of risk policies that combine the experts' knowledge with the public's emotions and intuitions.

Still, the risk policies could bring to light other important issues. A risk policy is a broad frame that embeds a particular risky choice in a set of similar choices (Kahneman, 2011). The main purpose of the risk policy is to provide remedies against two distinct biases that affect many decisions:

☐ the exaggerated optimism of the planning enthusiasm

☐ the exaggerated caution induced by loss aversion

The two biases oppose each other in the following way: exaggerated optimism protects individuals and organizations from the effects of loss aversion and loss aversion protects them from the follies of overconfident optimism. The optimists believe that the decisions they make are more prudent than they really are, and loss-averse decision makers correctly reject marginal propositions that they might otherwise accept. Hence, the conclusion is the combination of the outside view with a risk policy should be the goal.

3.2.5 Change Management

Change is the binding factor of all the concepts discussed so far. Without any change, there could be no risk, nor any opportunity. However, implementing a change requires significant managerial effort. This issue has been researched and a well-known framework created by Kotter aims of improving change management.

According to Kotter (1996) there are eight steps to follow in order to transform an organization:

1. establish a sense of urgency about the need to achieve change (people will not change if they cannot see the need to do so)

2. create a guiding coalition (assemble a group with power energy and influence in the organization to lead the change)

3. develop a vision and strategy (create a vision of what the change is about, tell people why the change is needed and how it will be achieved)

4. communicate the change vision (tell people, in every possible way and at every opportunity, about the why, what and how of the changes)

5. empower broad-based action (involve people in the change effort, get people to think about the changes and how to achieve them rather than thinking about why they do not like the changes and how to stop them)

6. generate short-term wins (seeing the changes happening and working and recognizing the work being done by people towards achieving the change is critical)

7. consolidate gains and produce more change (create momentum for change by building on successes in the change, invigorate people through the changes, develop people as change agents)

8. anchor new approaches in the corporate culture (this is critical to long-term success and institutionalizing the changes, because failure to do so may mean that changes achieved through hard work and effort slip away with people's tendency to revert to the old and comfortable ways of doing things)

Kotter's eight-step model was elaborated to address fundamental changes in how the business is conducted so that the organization can cope with a new, more challenging market environment. However, of the years, some limitations have been discovered to this framework (Appelbaum et al, 2012):

□ A rigid approach (the eight steps should be followed in sequence and that extended overlapping of the steps will compromise success)

□ Some steps are not relevant in some contexts (some transformations do not require or are disable following certain steps)

□ Dealing with difficulties during change management (the model is not detailed enough to provide help in all scenarios)

□ Difficulties of studying change management projects (studying major change management projects is difficult, due to their complexity)

Change management should be considered most valuable in relation to strategy management. Kotter has made further research in this field, and together with Schlesinger (2008), they developed a model for choosing the right strategy for implementing a change (figure 8).

Strategic continuum

Fast	Slower
Clearly planned.	Not clearly planned at the beginning.
Little involvement of others.	Lots of involvement of others.
Attempt to overcome any resistance.	Attempt to minimize any resistance.

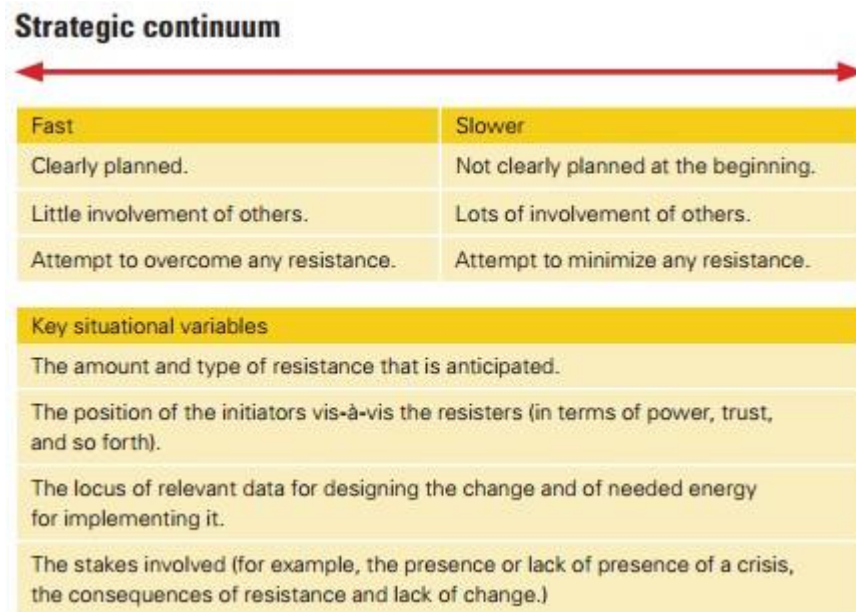| Key situational variables |
|---|
| The amount and type of resistance that is anticipated. |
| The position of the initiators vis-à-vis the resisters (in terms of power, trust, and so forth). |
| The locus of relevant data for designing the change and of needed energy for implementing it. |
| The stakes involved (for example, the presence or lack of presence of a crisis, the consequences of resistance and lack of change.) |

Figure 8, Change strategies

Kotter, J.P. & Schlesinger, L.A. 2008, "Choosing Strategies for Change", p. 137

Kotter and Schlesinger (2008) state that there are Situational factors to be considered in relationship with the model. In order to be able to strategically position a change effort on the continuum (figure 8) depends on four factors: the amount and kind of the anticipated resistance, the position of the initiator in relation with the resisters, the person who has the data and the energy and for designing and implementing the change and on the stakes involved.

3.3 Model creation/Framework creation

As a conclusion of the theoretical chapter, the following hypotheses as a proposed explanation to test theories:

☐   Risk/opportunity assessment is a change management process

- HRM functions, organization profile and psychological profile of the employees are the factors that influence the risk culture

- Every risk/opportunity related assessment enhances risk culture

- Risk culture improves risk/opportunity identification

The hypotheses are to be tested by applying the model in figure 9 in different study cases. Models can provide a framework, representative structure, or organization or communication of results. In this study, the model represents a framework for assessing risks/opportunities by focusing on the people of the organization (the main resource in risk management).

The risk/opportunity (that needs to be first identified, assessed and evaluated - steps inspired from the RM frameworks) initiates a change. The steps for implementing the change (8 tags of the arrows) are inspired from Kotter. The steps eventually lead to a culture consolidation with a risk management mindframe. However, there is continuous improvement and learning (the circular form of the steps). In the center there is the human element (the most important). It symbolizes all the people in the organization and the importance of individualism, in the same time. We should consider a psychological profile of the employee to determine the risk perception/attitude. HRM functions need to always motivate and train.

Nevertheless, recruitment is very important by creating risk profile of a potential employee.
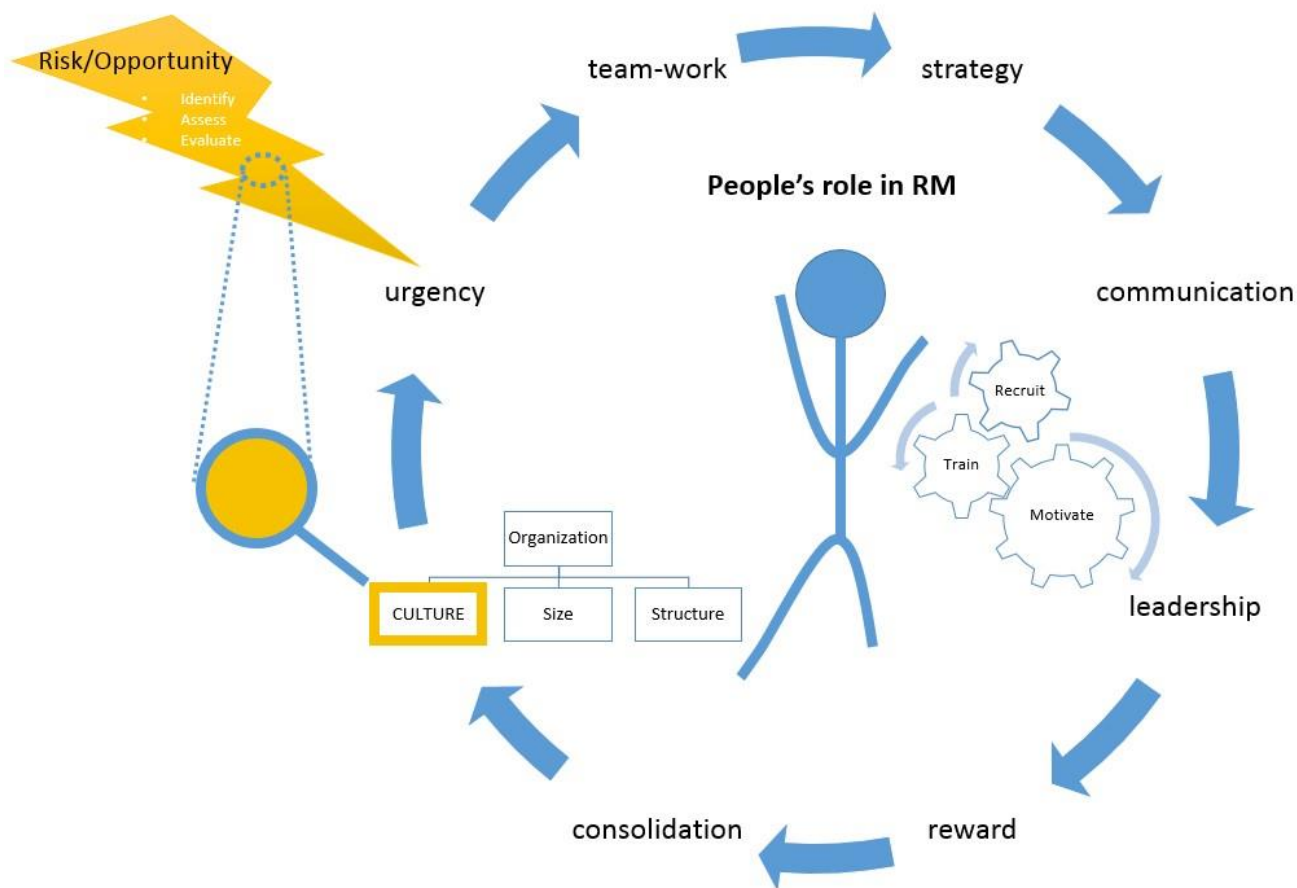
Figure 9, People and risk in an organization

Chapter 4 Analysis

The analysis consists of applying the model of "People and risk in an organization" (Figure 9) on two well-known cases with opposite developments in terms of risk culture. Moreover, primary data is gathered for a third case in which the framework created can emphasis on important managerial

implications. The results of the analysis aim to validate the hypotheses created as the output of the theoretical overview. In this way, the path for answering the research questions ends after gathering and interpreting the results of the case studies analysis.

The deductive research I conducted needed the use of the case studies because, the model can only be tested in specific situations found in the cases I will be presenting. The cases are chosen to illustrate different aspects of the model. For the first case, the model shows its value as an important tool in avoiding a crisis situation. The second case has a successful development. Applying the framework in this situation, serves the purpose of reflection on its validity and reliability. Moreover, improvements can be enlightened by case's insides. The final case is creating using mainly primary data obtained through a qualitative research (interviews and observations).

Although the unit of analysis can be considered very narrow, the results obtained in the research can be expanded to any organization. The cases are created over two multinationals and medium-sized companies. There are to cases in the service field and one in the production (Nokia case). Reliability is obtained in the third case by conducting interviews in three business units, enhanced by observation. Using primary, secondary and tertiary data and qualitative and quantitative methods creates validity. The strategy for analyzing cases using the model created is the following:

1. Initial phase description

- mapping of the risk/opportunity (identify, assess, evaluate)
- mapping of the organization (structure, size, culture)

2. Organization's actions and potential corrections/recommendations

- employee profile (psychological + HR: recruiting strategy, training and motivational programs)
- steps for dealing with risk/opportunity and for creating and a more consolidated risk culture

3. Conclusion: how the model helps

4.1 Lehman Case

This case was chosen illustrate the importance of a sustained risk culture. The model will provide the explanation of what actions where right and where mistakes were made that driven the risk management failure. The focus will remain on the people of the organization and their role in assessing risk.

4.1.1 Presentation

The case presents the events triggering the bankruptcy of Lehman Brothers. The company is analyzed starting from 2006. The results of its bankruptcy are showed until the end of the year 2008. Secondary and tertiary data is collected for qualitative (insides from the organization) and quantitative (statistics).

Lehman Brothers was one of the top global financial institutions. Its bankruptcy on September 15, 2008 determined that the risk management of the firm failed. This happened although they reported their commitment to a risk culture at every managerial level (Lehman annual report, 2006).

The global leader in financial services operated in three business segments: capital markets, investment banking and funds management. Their business field required extensive risk management. Lehman used ERM to identify all significant risks by internal reporting of the employees to the top management. Nevertheless, the organization used financial risk management tools as Value-at-Risk.

Still, there is evidence to show that one of the reason of the failure can be found in their risk culture. There is a certain level of risk taking that an organization should pursue and Lehman overstepped it. Andersen (2010b) states that in the instable economy of 2006-2007, Lehman Brothers increased their overall exposure by allowing an increase in the leverage ratio from 26.2 times in the bull market to 30.7 in a single year. Moreover, the company assumed an excessive position in mortgages and financial derivatives. They expose to a higher risk by having a 65% increase in real estate and mortgage that caused critical losses. Lehman also encountered liquidity, regulatory and model risks.

On 9 June 2008 when Lehman Brothers announced in the second quarter report a loss of $2.8 billion having a negative impact on banks, savings and loans, primary dealers and brokerage firms. The bankruptcy of the Wall Street top company created panic on the market and a significant stock market sell-off took place (Johnson, Mamun, 2012).

4.1.2 Model application

Organization Profile

The first step in the analysis is to identify the company's profile. It is important to consider its <u>size</u>, <u>structure</u> and the key aspect in risk management, its culture.

Lehman Brothers was a public company founded in 1850 as H. Lehman & Bro. It had 28,600 employees and total assets valued at $691.06 billion in 2007 (Dinger, 2009). Therefore, along with its multinational dimension, it was one of the biggest organizations. Nevertheless, their competitive culture is demonstrated by maintaining a place in the top three in the financial service market for almost 20 years (table 2).

Table 2, Leaders on financial market

"Investment Banking", Market Share Reporter: Trends Over Time, Gale, 2012

Wall Street's Biggest Players, 1990 (leaders in mergers and acquisitions are shown with their total transaction volumes)		Leading Advisers on Global Mergers, 2008 (advisers are ranked by value of deal in billions for the first quarter)	
Data are shown in billions of dollars			
Goldman Sachs	50.8	Goldman Sachs	117.0
Morgan Stanley	46.8	Morgan Stanley	94.3
Lehman Brothers	45.6	Lehman Brothers	93.3
Lazard Freres	44.5	Merrill Lynch	71.8
First Boston	40.4	UBS	66.0
Merrill Lynch	37.1	J.P. Morgan Chase	63.9
Salomon Brothers	32.2	Citigroup	61.7
Wasserstein, Perella	31.5	Credit Suisse	51.9
J.P. Morgan	20.5	Blackstone	50.6

Risk management frameworks are more difficult to implement in companies of larger scale. Only through culture and a flat organization structure can risk management be effectively pursued. A former employee, Greenfield, the chief learning officer describes the characteristics of the Lehman Brothers <u>culture</u> (2009):

- The belief that the firm is a "family"
- Resilience in the face of near disaster
- Pride in being the disadvantaged
- Fierce competitiveness

The employee considered that the culture was so strong it become rigid. In this way, it had the downside of limiting the diversity and creating a single acceptable perspective.

Employee profile

It was established that the HRM functions and the profile of the people recruited in the company are important aspects in risk management.

Psychologically, it may be considered that the company's ongoing success has created the danger for the top management in taking too much risk. The recruitment considered also this risk attitude. In their annual report of the year preceding the bankruptcy, they stated that attracting and developing top talent is critical as they continued to grow, diversify, and meet new challenges. They expressed their efforts in talent management to ensure the range and the diversity of experience at all levels of the organization. The number of employees increased over the years (table 3) as they registered overall growth.

Table 3, Number of employees
Lehman Brothers Annual Report 2007

	2007	2006	2005	2004	2003
Employees	28,556	25,936	22,919	19,579	16,188

In terms of training, Lehman Brothers hired a chief learning officer, Hope Greenfield joined in June 2001. She developed selling and relationship management training programs for all front-desk employees, designed to enhance effectiveness. In 2004, 3,600 employees used Lehman's leadership training modules. The results have been very positive. Evaluation shows that 45% of the Lehman managers who went through a follow-up 360-degree review two years after their initial review demonstrated clear improvement in management and leadership skills. In addition, the client-focus scores on all of the follow-up 360-degree reviews rose significantly, demonstrating a positive response to the firm's client-focus initiatives (Bongiorno et al, 2005).

Another important HRM function is <u>motivation</u>. Lehman Brothers offered career mobility within divisions, across divisions, and across geographic regions in order to ensure that the right people are doing the right jobs. Moreover, the company offered incentives to motivate. Employees and Directors could receive stock options, as a portion of their total compensation and the majority of the personnel were eligible for funded and unfunded noncontributory defined benefit pension plans. In addition, there were other benefits as primarily health care and life insurance (Lehman Brothers report 2007).

However, conflicts between the personnel and the top management caused the resigning of key managers who could have saved the company from bankruptcy. For example, Michael Gelband, Lehman's global head of fixed income, quit in May 2007, after disputes with the CEO (Richard Fuld) as he opposed the amount of risk taking and would not speed the unit's growth. The same situation happened for Alex Kirk, head of credit products, who had to leave the company in February 2007. Moreover, in terms of risk management, there was a serious communication problem between the team and the board. Madelyn Antoncic, the risk expert of the firm was excluded from important management meetings in 2006.

Risk/Opportunity Profile

The second stage of analyzing the case from the lenses provided by the theoretical model is mapping the risk undergone by the company. The scanning process was very important in the Lehman's case, as the risk turned into loses that led to bankruptcy.

In their Annual Report (2007), Lehman Brothers acknowledged that there were substantial risks inherent in their businesses, including market, liquidity, credit, operational, legal and regulatory risks. The model suggests identification, assessment and evaluation of the risks. The company states that they monitor, evaluate and manage risks through a comprehensive risk management structure.

Still, the firm should have considered implementing Strategic Risk Management, as they faced strategic risks. In order to achieve this, the following conditions are needed: strong risk culture, clear mission, long-term strategic goals, good governance practices, flexible structure and fluid communication lines (Andersen, 2010b).

Therefore, by applying the mode, the <u>identification</u> stage would have generated the following strategic risks/opportunities:

- Industry consolidation
- Changing environment from risk taking to risk aversion
- Human capital
- Acquisitions of subprime mortgage lenders
- Soften risk culture due to the easy profit of the past years
- Competition from alternative trading systems

The risks <u>assessment</u> was pursued using some risk management tools. With Value-at-Risk, Lehman could assess a specific number to a certain risk. The versatility of this tool consists of assessing all asset classes and of aggregating numerous risk factors (credit risks, commodity risks, foreign exchange risks and interest rate risks). However, it has its limitations that can cause long-term problems if not used effectively. Some of the downsides of this tool refer to its improbability of discovering the potential risks of a financial crisis due to measurements on short-term data. In addition, the measurement of the liquidity risks is not reliable and it fails to illustrate the differences among leverage ratios that reset at fixed data and the ones created by the overnight loans (Andersen, 2010b).

The last and the most important step was <u>evaluation</u> of the risks. Lehman did not react fast to the unexpected, waiting untilmid-2008 to reduce its risk exposures. The evaluation of the risks should have raised red flags for the excess liquidity and the low interest rates. If the risks were appropriately considered, the company may have implemented a risk management process as the one proposed in the model.

Risk Management Process

The model presents the steps for dealing with risks/opportunities and for creating and a more consolidated risk culture. First, <u>urgency</u> needs to be created. The financial markets were deteriorating, but this did not make Lehman Brothers oppose from risk taking. Therefore, urgency should have been created especially at the top management level, and then across the company.

To create urgency, the risk management team had to be aware of the risk exposures. <u>Teamwork</u> played an important role. There are different teams with different functionalities in the risk management of Lehman Brothers. The Risk Committee determines the overall risk limits and risk management policies, including establishment of risk tolerance level. It includes management's Executive Committee, the Global Head of Risk Management and certain other members of senior management. Their role is to reviews the risk exposures, the position concentrations and the risk-taking activities on a weekly basis, or more frequently as needed. Risk Committee allocates the usage of capital to each of our businesses and establishes trading and credit limits for counterparties with a goal to maintain diversification of businesses, counterparties and geographic presence. There is also the Global Risk Management Division (the "Division") which is independent of revenue-generation but maintains a presence in the regional trading centers as well as in key sales offices. The Division's role is to assist in explaining risks and making them clear to management and others. The organization of the Division reflects the integrated approach to risk management, bringing together the skill sets of credit, market, quantitative, sovereign and operational risk management groups (Lehman Brothers Annual Report 2007).

The teams work together in creating a risk management <u>strategy</u>. Lehman Brothers (2007) declared to have four pillars of strategy:

☐	driving diversified growth

☐	delivering the whole firm to clients

☐	managing risk, capital, and expenses

☐	preserving and strengthening the culture

However, implementing this strategy failed due to the lack of <u>communication</u>. Top management focused exclusively on the growth of the earning without listening to the people recruited to manage corporate risks.

This is partially a <u>leadership</u> issue. A lot of criticism has been brought to Richard Fuld, the former chairman and CEO of Lehman Brothers. He started working at the company in 1966 as an intern and was hired in 1969 as a commercial-paper trader. He held the CEO and chairman position from 1994 until 2008, when the firm filed bankruptcy. Fuld was nicknamed the "Gorilla of Wall Street" for his combative personality and tendency to grunt (Juergen, 2012).

The model suggests that after leading to short-term wins in successfully managing risks and opportunities, <u>rewarding</u> should take place. However, as in the Lehman case, the leadership failed

because there were communication barriers and interest conflicts between the people assessing risks and the top management, the motivation of the HR through rewards remains a key recommendation.

The next step consists in <u>consolidation</u> of the desired risk behavior among the people in the organization. This will intensify the risk culture and make people more aware of their key role in risk management. Lehman Brothers management and board of directors lacked commitment and created disconnection between the people in charge with the strategy of the company and the ones in the working in the operation and execution levels.

The last step in the proposed framework is to consolidate the <u>culture</u>, making it each time more risk oriented. An enhanced risk culture is one that increases the ability of opportunity and risk identification among its entire personnel. The people in the organization and their culture are the key components of managing risk effectively in order to avoid, first, failures as the on Lehman Brothers encountered.

4.1.3 Results and recommendations

The analysis of the Lehman Brothers Case validated the application of the model created to show the interconnections between the people and the culture of an organization and risk management. Moreover, applying the framework led to the discovery of important insides in the case that could be generalized to management lessons for other organizations.

The organization profile determined that Lehman Brothers consists of a challenging company for implementing risk management due to its size, structure and overall strategic objectives of intense competitiveness. Although the personnel of Lehman Brothers was well trained and motivated, their capabilities did not materialize in better outcomes for the company (starting from 2006), because of leadership ignorance. The uncertain and rapid changing environment created significant risk exposures that the top management failed to address. The model suggested the steps of the process for dealing with these risks. The results of the analysis showed that risk management process that Lehman Brothers pursued was not in accordance to the theoretical findings of the study that led to the creation of the proposed model. Lehman Brothers approach in terms of the risk management process was the following (Annual Report, 2007):

☐   Establish policies to document the risk principles, the risk capacity and tolerance levels

☐   Monitor and enforce adherence to the risk policies

☐   Measure quantifiable risks using methodologies and models based on tested assumptions

☐Identify emerging risks through monitoring portfolios, new business development, unusual or complex transactions, external events and market influences

☐   Report risks to stakeholders

Firstly, relying on the risk policies could create the comfort of a passive risk management behavior. Nevertheless, the top management should have showed commitment to any of the risk policies they had implemented.

Secondly, in terms of monitoring and measuring, their risk management tools had some flaws that could have been easily corrected if Lehman Brothers had a more comprehensive risk culture. However, the focus should have been on the people of the organization and their role in risk management. The human resources were more capable of strategic risk management.

Moreover, although the risk management experts reported and created urgency showing good teamwork, the top management ignored which resulted in the resign of key risk management people. This negatively affected their risk culture by creating communication barriers and a stressful environment in the organization.

In conclusion, the model demonstrated the importance of people in the organization. Their main role is to contribute to the culture, which leads to effective risk management. The management flaws in the Lehman Brothers organization consists especially in their risk culture. All the people in the company should have been more involved in risk management in order to diminish the damages caused by the faulty leadership. In this way, the personnel with desired risk attitudes would have had more power to drive the top management into better risk management strategies.

4.2 Nokia Case

The purpose of analyzing the following case is to illustrate an example of enterprising effective risk management by involving all the people in the organization in a sustainable risk culture. The case study was chosen to demonstrate the positive outcomes of managing risks. The research is crosssectional, whereas the Lehman case constituted a longitudinal study. Moreover, it presents a risk management framework from a production company perspective. In both cases, secondary and tertiary data is used for a predominant qualitative research. However, in this analysis, the model will be tested to show its validity in best-case scenarios.

4.2.1 Presentation

Nokia was originally a manufacturer of pulp and paper, founded as Nokia Company in 1865 in central town of Finland. It has introduced many new production methods in a country with only one major natural resource, wood. In 1915, Nokia was already public with shares listed on the Helsinki exchange in 1915 (Gasbarre et al, 2006).
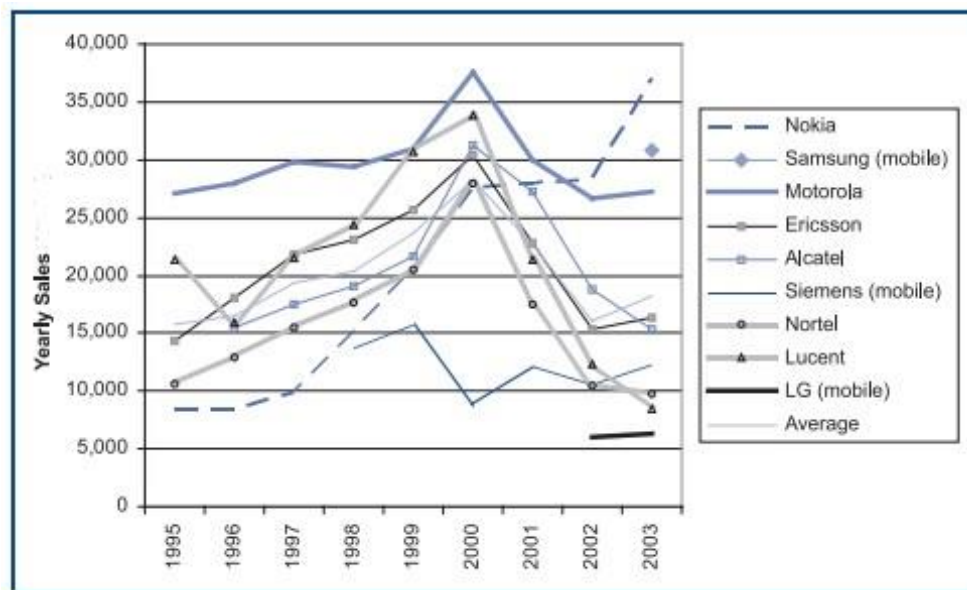

Figure 10, Sales of major mobile and telecommunication equipment vendors
(Carral, Kajanto, 2008, page 24)

In a short period, Nokia had an impressive growth (see Figure 10), in 2000 considering itself the leader of in mobile communications. The research focuses on the challenges and the opportunities Nokia faced at the turn of the millennium. For example, in Nokia's Annual Report (2000) they considered implementing mobility to the Internet, to create new opportunities for businesses and enriching the quality of life for individuals using Nokia products. Seizing the opportunities was worth it. Their financial statements in 2000 showed a 48% increase in their operating profit from their previous year, reaching

5.8 billion EUR and an increase of 54% in sales that consisted of 30.4 billion EUR.

However, the year 2000 brought also challenges to Nokia. On March 17, a lightening hit a power line in New Mexico (Elahi, 2013). The temporary loss of electricity damaged the cooling fans at Royal

Philips Electronics (Nokia's supplier) plant in Albuquerque. This provoked a fire to start that was put out by the personnel of Philips within minutes. Therefore, the first impression was that the damage is minor and the company considered resuming production within a week, after a cleanup of the semiconductor plant. Still, the factory supplied ASIC chips (very important for Nokia's production) that were very sensitive to the smoke, water and soot and a large production of these finish goods were compromised ("When the chain breaks." The Economist, 2006).

Nokia demonstrated effective risk management in this situation especially in comparison with the other major customer of the Dutch firm Philips, L. M. Ericsson. Nokia's actions for identifying the risk and successfully transforming it into a competitive advantage showed good communication channels between the stakeholders and solid risk culture, which resulted in minimum loses and maintaining their leadership position. In the same time, Ericsson, who relied only on this supplier and did not made further research to estimate the risks, registered a 400 million EUR loss (Andersen, Schrøder, 2010). By applying the model to this case, the elements that drove Nokia to cope successfully with this threat will be identified.

4.2.2 Model application

Organization Profile

In terms of <u>size</u>, in 2000, Nokia had 60 000 employees operating in 130 countries (Annual report 2000). The advantage for a large company is that it can take a portfolio approach to innovation. In a study made on Nokia's development in 2007 it was revealed that an approach consisting of taking a broad range of risks would maximize the chances of long-term success. Smaller companies, while full of innovative enthusiasm, have smaller budget that inhibits risk taking. Therefore, Nokia's success is related to its risk taking attitude in accordance with its size ("Nokia: big and clever", 2007).

Nokia's organizational <u>structure</u> is also compatible with a good risk culture. In their Annual report of 2000, they wrote that decisions within the organization are made as close to the frontline as possible and by those people most knowledgeable. Their structure is flat, with a non-hierarchical working style, promoting discussion, openness, entrepreneurism and risk-taking. They refer to it, as the

Nokia Way, which is the base for their <u>culture</u> and a frame of mind based on mutual respect and on willingness to work together.

Employee profile

<u>Recruitment</u> is a very important HR function in Nokia organization. The 54% increase in revenues triggered a 9% increase in personnel. The functionality diversity and their revenues are showed in figure 11. Despite a global scarcity of IT and skilled communications people in 2000, the company continued to attract top quality recruits and more than half of those participating to employee satisfaction surveys had been with the company for less than three years.

	2000 EURm	1999 EURm	Personnel average	2000	1999
Wages and salaries	87	47	Marketing	54	37
Pension expenses	3	7	R&D	1 166	1 198
Other social expenses	45	12	Administration	510	428
Personnel expenses as per profit and loss account	135	66		1 730	1 663

Figure 11, Personnel expenses and diversity (Nokia

Annual Report 2000, page 28)

However, as Nokia anticipated in1998 that there would be a market slowdown within three to four years the recruitment in the following years has been done precociously. Carral and Kajanto (2008) considered that Nokia only increased by low rates the number of employees because it is expensive to hire personnel that later will be let go and downsizing hurts morale and causes other internal difficulties. Otherwise, it is a good strategy to recruit from the inside. For this to happen, Nokia implemented comprehensive training programs. They also measured the results from the employees' perspective. The survey showed that training and development scored well and remained ahead of the benchmark (Nokia Annual Report, 2000).

Moreover, they made a survey to measure the employees' <u>motivation</u>. The early survey is called "Listening to You" and measured the overall satisfaction, which remained high, above the benchmark for high-performance companies, irrespective of industry. The participants sustained the company's commitment to customer satisfaction with the highest figure achieved by anyone, apart from Nokia itself in 1998-1999. In addition, the respondents stated that they had a clear understanding of the

organization goals and objectives, again above the high-performance company norm. Confidence in Nokia's quality culture was also measured and proved to be higher in 2000 with management perceiving as doing a better job in implementing processes and programs, providing tools and investing in training. Overall, the results stand by their statement that "the success of our aims lies in the hearts and minds of our people" (Nokia Annual Report, 2000, page 18) emphasizing the valuable role of the people in their organization.

Risk/Opportunity Profile

Nokia demonstrated good scanning skills in terms of risks and opportunities. For example, Nokia forecast in 1998 that there would be a market downsizing within three to four years. Still, their focus was on underlying new growth opportunities and on actively engaging in exploring markets in varied industries (Carral, Kajanto, 2008). In this way, they were able to turn the disruption of the fire at the plant of their chip supplier into an opportunity (Elahi, 2013), creating a best practice case.

Once the risks and opportunities were identified, effective risk management consists in the assessment processes. As the case focuses on a Supply Chain risk, the coping with these specific risks is done through their supply chain architecture. When the incident happened, Nokia had a strategic execution program to implement a customer-focused delivery process in Nokia Networks called IPM (figure 12). It aims to provide customers with more speed, efficient and cost effective deliveries by better managing the end-to-end supply chain.The program started with the creation of key business capabilities through selected customer principles:

- collaborative demand planning with a customer
- site-based ordering by project progress
- professional cost management
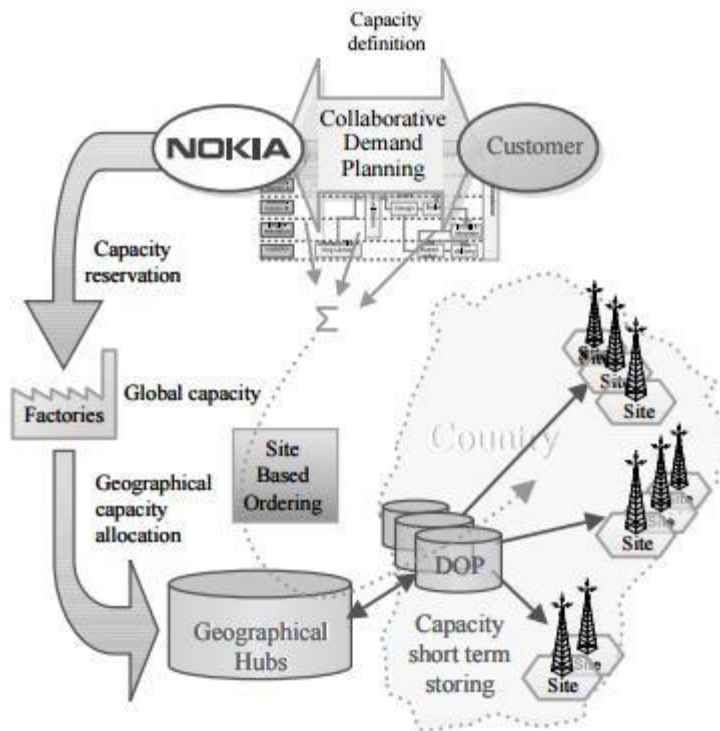- performance metrics with integrated platform

Figure 12, Integrated supply chain in IPM

(Collin, Lorenzin, 2006, page 426)

Considering how the <u>evaluation</u> process, a lot of pressure is put on Nokia's financial risk management due to operating oncontinuously evolving financial markets together with a rapidly changing business environment create a challenging environment. The overall objective of the Treasury function is to guarantee cost efficient funding of the group and group companies, and to identify, evaluate and hedge financial risks in close co-operation with the business groups. Nokia had in 2000 Treasury Centers in Geneva, Singapore/Beijing and Dallas, and a Corporate Treasury unit in Helsinki. Their operations are controlled by policies approved by the top management. The policies provide principles for overall financial risk management in Nokia, covering specific areas such as foreign exchange risk, interest rate risk, use of derivative financial instruments and liquidity and credit risk. The basic operating policy for Nokia financial risk management is risk averse (Nokia Annual Report, 2000). Yet, the visualization of their whole risk management will be obtained by analyzing a process through the model created in figure 9.

Risk Management Process

Considering the forecasting in 1998 of the market pitfall, Nokia created <u>urgency</u> communicating it throughout the organization. Carral and Kajanto (2008) observed that the awareness process of communicating the drastic message to the management in order for Nokia to act upon the information took an entire year. Afterwards, they organized scenario exercise for management and used industryanalysis models to project the demand under different mobile penetration and mobile usage assumptions. Therefore, their risk management process has good start.

The second step of the framework is the <u>teamwork</u> ability to handle risks. The Nokia Way consists of key values as team effort to maintaining a sharp competitive perspective through speed and flexibility in decision. The team is integrating in Nokia's <u>strategy</u>. For example, in 2000 Nokia's business objective was to strengthen its position as a leading systems and product supplier in the global communications industry. For this opportunity, Nokia's strategic intent was to combine mobility and the Internet and stimulate the creation of new services (Nokia Annual Report 2010).

The strategy needs to be <u>communicated</u> correctly and rapidly to everyone in the company, as the role of the people is important in every business process, especially in a risk management one. The company is traditionally known to be open, as the management likes to listen to and learn from different views. This <u>leadership</u> function was proved in terms of the preparation Nokia had before the slowdown in the 2001 mobile and telecommunication market. There were implementation challenges in terms of strategy and leadership, but top management managed to get the message across to the organization and persuade people to act upon it. There were also challenges regarding structure and process. Change usually makes people in the organization feel that they were being removed from their familiar structures. When Nokia restructured sales and marketing by focusing on the largest global customers and consolidated operations, customer consolidations, uncertainty and anxiety resulted (Carral, Kajanto, 2008).

However, these change adverse reactions were handled through Nokia's <u>rewarding</u> systems. In their 2000 Annual Report, Nokia stated that they maintain a long record of accomplishment in terms of the good relations with their people. They implemented performance-based compensation with emphasis on the payment of incentives for achievement of clearly specified and measured targets. The share options scheme was extended from 5 000 to over 16 000 individuals and, under the Nokia

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Connecting People Bonus Plan, over 88 million euros will be paid out based on 2000 performance. In this way, confidence and commitment to the Nokia culture have been <u>consolidated</u>. In conclusion, the risk management process finalizes with a stronger risk <u>culture</u>, which will drive desired risk outcomes by involving people in better identifying future risks and opportunities.

4.2.3 Results and recommendations

The model created in this paper is compatible with Nokia's risk management process. There are very few discrepancies in terms of focus on a risk culture. For instance, personnel anxiety made by a change management process should be avoid through a culture that values flexibility. Nevertheless, the generic risk management steps from the model were associated with specific policies of the organization. The model is also verified with a practical perspective (Andersen, 2010) of the chip shortage incident:

☐   Urgency: The company realized within two days that there was a problem when their computer systems showed some shipments were being held up. Delays of a few days are common in manufacturing, so Nokia had back-up components. Still, they started monitoring the incoming supplies form weekly to daily checks.

☐   Teamwork : Nokia engineers flew to the plant in New Mexico to investigate and help the Philips production

☐   Strategy: Their strategic mind frame raised against relying on the assurance that little damage has been done and the chip supplies will not be affected. The outcome was that it took actually many weeks to reinstate production in the plant.

☐   Communication: Nokia purchased alternative chips from Japanese and American suppliers and was able to arrange shipments with five days delivery.

☐   Leadership: The leadership function was proved not only in the internal operations management, but also external. Nokia put pressure on the top management of their problematic supplier to ensure that all other Philips facilities were committed to use their additional capacity to meet Nokia's requirements.

☐   Rewarding: The positive short-term outcome was that Nokia mentioned almost intact production levels.

☐   Consolidation: Modular manufacturing architecture enabled Nokia to adapt its production to use a new chip design from their other suppliers.

☐   Culture: Their risk culture was enabled the establishment of alternative sourcing channels, which was the key advantage in handling the crisis. Nevertheless, their internal process control systems was able to detected shipments disruptions, process which was even strengthened by this experience.

The usage of best practices at Nokia is demonstrated by their competitive advantage with an impressive growth in 2000 (figure 12). Their sustainable risk culture obtained by involving everyone in the company in risks and opportunities assessment enabled them to identify and forecast both threats and growth opportunities.
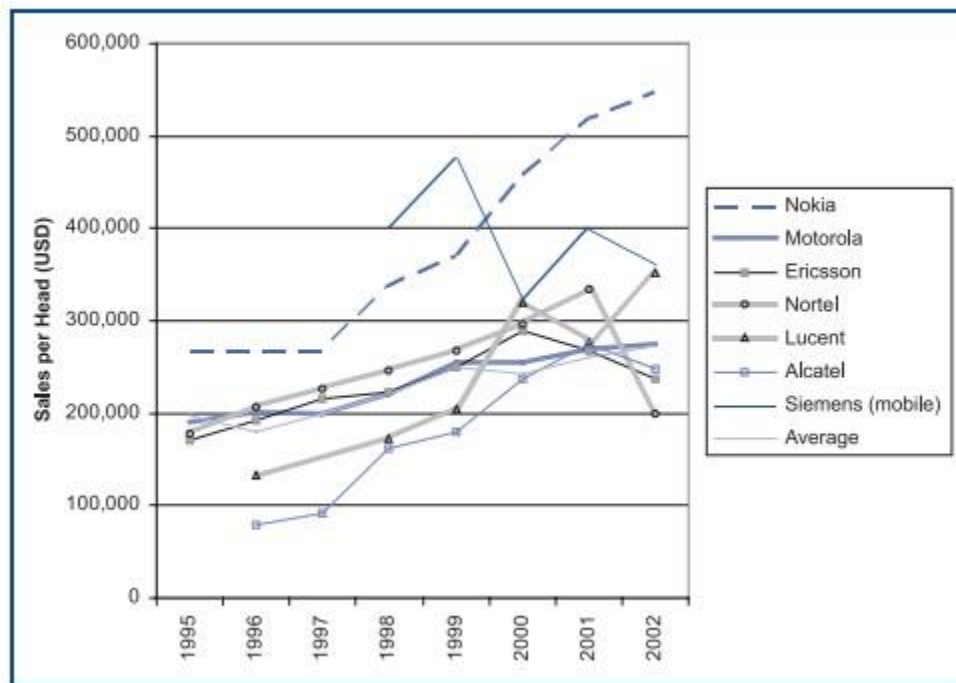

Figure 12, Average annual sales of major competitors in the mobile equipment industry

(Carral, Kajanto, 2008, page 26)

4.3 Research in a service organization

As the previous cases have been analyzed through the usage of secondary data, the following research aims to bring validity to the model for answering the research question. Nevertheless, the company is smaller with not much risk management perspective in accordance with its size. Therefore, risk management implementation through the framework I created is tested. In addition, its size and

structure different from the organizations subject to the other two cases helps generalizing the model applicability. The name of the company is confidential for avoiding negative outcomes.

4.3.1 Presentation

The case is about a service company operating in Denmark. The independent Danish-owned company has its headquarters in Copenhagen with numerous business units. It was established in May 2000 in the legal form of A/S. Today, it has an approximately 700 employees.

Its growth can also been observed through the increase of sales and net profit over the years. The organization was awarded "Årets Gazelle" (a Danish enterprise growth award), by the Danish newspaper Dagbladet Børsen (company's website, 2015). Table 4 shows the exact values and the annual growth rates.

Table 4, The organization growth

NN Markedsdata, 2015

Year	2014	2013	2012	2011	2010
Net Profit (1.000 DKK)	10,091	9,540	8,441	6,680	3,294
Growth rate	6%	13%	26%	103%	

The sustained growth is compatible with the organization's focus on sustainability. They explain the concept of sustainability through their website in the way that they try to create good conditions for the employees and the environment. The organization keeps the environmental impact of their business activity to an absolute minimum, by using only environmentally friendly products (supplies certified by The Green Key or The Nordic Eco-label). The company tries to deliver their sustainable values thought their stakeholders network: suppliers, customers and employees. For example, the employees are trained not to reduce the waste of water on the job.

The relationship with the employees is also very important for the service organization, as stated in their website (2015). They argue that they recruit the best employees to ensure high professional standards, and they take good care of them (for example, through bonus program). Nevertheless, they

strive to maintain good mental and physical working environment, by leading a zero-tolerance policy concerning discrimination of any kind. Their perception is that they have smiling and happy employees as a result of the working conditions they provide.

In terms of risks, they are very much affected by the human resources risks due to the business field. Therefore, they try to adapt to fluctuating occupancy rates as they occur during the year. In this way, they minimize costs of permanent staff. Moreover, the organization shares the risks related to human resources by being part of a collective agreement with the United Federation of Danish Workers (3F) Copenhagen. Additionally, to ensure work safety, all employees receive practical training before work is commenced and are obliged to review and to sign the company's "Health and Safety" manuals.

4.3.2 Empirical data

Primary data is collected through semi-structured interviews and participant observations. The sample consists of gathering data from four business units out of 22 (5.5%). These methods will trigger a qualitative research analysis. The results of the case aim to strengthen the applicability of the theoretical model.

Semi-structured interviews

I applied this qualitative data collection strategy, as it was the most suitable for my research. As an Idealist (the reality is created in the mind and shared through interpretations) the open questions and the flexibility in terms of responses provides the most useful output for a comprehensive picture of the theoretical concept relations in a practical context. The subject of my study consists of the soft side of HRM in RM, which required understanding of the employees' perspective.

The respondent selection was based on creating validity. The three respondents have been working for more than three months for the company, but in different business units, and therefore, in different work environment conditions. All of them have higher education in business, therefore it was easy for them to understand management concepts and argue about their existence in the organization.

The interviews had a short length of 10 minutes containing seven open questions covering 13 topics (as presented in guideline). I organized the interviews with the respondents separately, without preparation

on the topic, via voice calls from computers (Skype application). The conversations were registered with the respondents' approval and then transcribed without any interpretation (Appendix 1-3).

I have developed in advance a guideline of 13 topics to address during the semi-structured interviews. It also consisted of a short introduction for preparing the respondents. During the actual interviews, some questions suffered changes leading the course of the discussion. The written interview guide was the following:

Interview preparation speech:

I will ask you 13 questions regarding your involvement in risk management at the organization where you are employed. The interview will last approximately 10 minutes. This constitutes the method collection for a research I am pursuing for my master thesis. Your name and the organization name is confidential.

Topics:

1. *How did you start working for the company?*
2. *What is your education level?*
3. *For how long have you been working? What is your working schedule?*
4. *How did you perceive the training you received? How was it?*
5. *Where you trained for handling risks? If yes, what risks, what actions?*
6. *What risk management policies are you aware of?*
7. *Are there any risks unidentified by the management that you came across? For example?*
8. *How open is the management to your suggestions? Examples?*
9. *What culture is promoted in the organization?*
10. *What motivates you to do the job?*
11. *Is teamwork one of the values promoted in your organization? When and how do you work in teams?*
12. *How does the management communicate changes to you?*
13. *Are you aware of the company's strategy? Do you feel involved in their strategy?*

The data obtained from these short interviews is reliable as the respondents were assured of their confidentiality. The key data is illustrated in table 5, containing the highlights of the three interviews' output.

Table 5, Data obtained from the interviews

Respondents	L.B.	G.C.	M.B.
Education level	2 bachelor degrees and one master degrees. I have finished a master in economics but also I have a bachelor in psychology.	I have an AP degree in service management.	I currently study at master's level.
Seniority	3 months; 4-5 hours per day, usually between 4 to 6 days per week	10 months; 20 hours per week.	Approximately 4 years, but I had one-year break, 10-15 h/week
Recruitment	I have applied on their website, they have called me. I have attendant an interview and then have started working	A girl suggested to start working here and helped me to get in.	I applied for job and I got to the interview.
Training	It was ok from certain points of view, but they did not show me the correct standards of the company.	I was shown only the half of the things I need to do and they did not tell me we have a lunch break. It really bothered me. And they had an attitude towards me, they were bossy.	3 days of training and the person who was training me was very nice and she has shown me everything.
Risk training	No.	No.	I don't remember them teaching me anything about risk management.
Risk management	They did prepare us on some situations of safety.	Not even safety at work. No training in this field.	They introduced us to the safety instructions and in fact it was twice in my work, and history in this company that I was given a paper with the instructions concerning the safety and then we had a test from that.
Risk identification	A risk for myself, a waste of time, turning back and also setting a negative image over myself in the company; they did not really count on time management.	The tools we use are very dangerous.	No.
Suggestions	I only ask questions.	Yes.	It was regarding the management of the time given to employees for doing the tasks, for cleaning the rooms.

Communication	Yes, they were open.	They are only concerned about you being fast.	They transferred me to another business unit.
Culture	It is a bit of quantity over quality.	I do not know. They want as to pay attention to details.	They don't treat people well and they could do a lot better in terms of handling their employees and giving them like more opportunities.
Motivation	I don't accept the idea of not being able to do something.	Only the money. I do not work for anything else.	Only money. I had to work in order to sustain myself as a student in Denmark.
Teamwork	Yes, but this is not a teamwork all in all.	It happens, but it is worse.	Yes, but not anymore. I don't know why we were working in teams at that time.
Changes	They keep us up to date.	I just saw it happen.	There were not many changes.
Strategy	We are not requested much feedback, therefore I don't think that we have even as a group have any say to do in this decision making process.	No.	We were taught sometimes that the company wants to be the best in Copenhagen

Participant observations

I chose this method as it is appropriate for generating theoretical interpretations. The conceptual model created in chapter 3 is a result of theoretical analysis that needed to be tested empirically. The research is explanatory (how can people be involved in risk management) and descriptive (what are the organization conditions, the competences of effective risk management etc.) due to the research questions. Nevertheless, this qualitative data generating method is suitable because there is restricted access to this business environment and there is an analysis of emotions, attitudes, motivation and other intangible human aspects.

The observations are made during two years in this business organization, based on perceptions related to the connection of human resources and risk management in this particular company. This research strategy of collecting data is meant to provide additional data to the interviews' output for an extensive qualitative research. The following data was generated:

☐ The people in the organization are not aware of the risk management

☐ People cannot get involved in the strategy or the risk management

- There is poor organizational culture promotion

- There is no risk culture

- There is a risky environment

- There are communication barriers between the management and the front level people

- There is a lack of motivation

- There is no risk management framework implemented

- The major safety risks are covered through training

- There are measures of reducing HR risks (striking, employee turnover, poor work quality) as: partnerships with job unions, and schedule flexibility

- There is a facile recruitment process, but it is inefficient as they let people go during probation, after resources are spent on training

- The management are disconnected to the operations, even for the training

- Lack of time management

- Unfair (inexistent) promotion and rewarding system

- Conflicts happen often and are not properly managed

- High turnover

- I am responsible to people that lack managerial skills

4.3.3 Discussion

At the first sight, it can be observed that this service organization has some HRM issues. This is revealed even from the secondary data. For example, its growth (see table 4) is not correlated with a financial raise as a reward for the employees. From 2012 to 2013, the net profit per employee has decreased by 43%, although there was a 26% increase in the net profit (NN Markedsdata, 2015). This may show that the company had a massive recruitment, although the total staff cost increased only with 32%. However, there is no information about the exact number of employees or this statistical evolution during the years of business. The financial data show that the company has 150 employees, although on the website of the organization, they claim to have 700. In order to discover the root source of these problems further analysis of the collected data needs to be completed.

The empirical data obtained from interviews and observations is analyzed using cluster strategy of creating classification. For this thematic analysis is I chose the method of interpretive coding. This means that the focus is on the interpretation of descriptive codes. The codes are grouped considering the similarity in their meaning. For this method, the risk management framework created will not be taken into consideration. However, the results from this analysis will be compared in model perspective.

Interpretative coding means establishing cluster descriptive codes that would be interpreted. The result is applied as interpreted code. I generated the codes in the first column in figure 13. Their description is given in the second column. The codes Communication (openness) and Reward (unclear, lack of opportunities, financial) were eliminated for the attributes shortage.

Some attributes from the cluster are repeating. By changing their functionality into a code, we obtain for example that there is a lack of: quality standards, risk training, risk policy, risk threats, culture, transparency in rewarding system, managerial operation perspective, feed-back request from the directed to the employees, inclusion in the decision-making process, change, strategy, teamwork. My interpretation of these findings is that the service organization lacks first proper risk management. The training and the teamwork are subjective. In some business units, there is effective training and teamwork is one of the values, in others, there are no meetings to inform about changes. This inconsistency is due to the absence of a sustainable organizational culture. The key concepts that are missing form together exactly the main subject of my thesis: risk culture. A risk management framework could help implement and sustain risk culture; therefore, in the following recommendation section I will test my model by applying it to this case.

risk	• lacking quality standards, bad evaluation, waste of time, no risk training, safety, executants, time management, no risk policy, risky tools, evaluation, no risk threats, environment, framework, HR
culture	• quantity over quality, inexistent, attention to details, lack of transparency in rewarding system
management	• client focused, lack of operation perspective, execution, no feedback request, understanding, time, informative, exclusive decision making process, result focused, random meetings, avoiding, attitude, disconnected, conflict
training	• standards, attributions, working style, tough, attitude, subjective
motivation	• self-motivation, challenge driven, financial, forced, inexistent
teamwork	• confusion, inapplicable, disadvantage, subjective
change	• managerial, spontaneous, promotion, static, retrospective
strategy	• uninvolved, absent, competitive, top level challenge, autocratic

Figure 13, Interpretative coding

4.3.4 Recommendations through model application

The risk management framework suggested in Figure 9 could be the subject of an alternative method of interpreting the data, namely template analysis. This method applies, as there are three interviews and

observations. In this way, the theme created prior to the case, from the theory is applied to the transcript to offer a better understanding of the business organization and in the same time to test the validity of the model.

The service company, as presented at 4.3.1, has an organizational structure and size that would facilitate the implementation of a risk management framework. The communication channels are much more reliable in smaller companies with relative flat structures. The scope of the risk management framework is to enable all the people in the organization to sensitively identify, assess and evaluate risks. For the moment, the case company only identified safety risks of the front level employee, which can be extended if feedback was collected from these people. The people can be involved in risk management, resulting in desired outcomes for the organization while maintaining their enthusiasm.

However, for this to happen, staff must be properly recruited, trained and motivated. The recruitment process as this company is an easy one consisting of an online application, appointment arrangement by phone, and a short face-to-face interview. This process takes a few weeks and after a three-days training, the new employee has signed a three-month contract. The training should be the decisive recruitment tool. Training takes many resources. Therefore, the management should take it seriously. In addition, the training represents the starting point of the quality of the work. Proper training means qualified trainers, explaining standardized procedures. A clear view of the regulations and the rewarding system would be motivating for the employees. They are now only financially driven, which means in the long run high turnover, high costs and higher risks. To avoid this, I suggest the model application.

The framework implementation has similar steps to a change management process. The personnel needs to feel the urgency of becoming risk management oriented. There should be meetings and discussions about the importance of the involvement of the people in risk management. After this, in order for the message to transit effectively, teams should be created driven by this objective of emphasizing the role of the people. There is empirical evidence showing the lack of attraction towards teamwork. Therefore, a strategic action would be to add teamwork to their set of values and raise awareness about their mission and vision.

The communication of the strategy should have invitation message to the employees. They need to feel that they make a difference. In the current situation, the personnel is unaware of the existing strategy and considered that any kind of feedback from their side is unrequested.

The management should prove leadership skills in order to inspire the people. This means that there should be a system based on rewards, not on punishment. The company wrote on their website that there is a bonus program in order to motivate their staff. The fact that nobody is aware of that only brings much more confusion regarding their managerial skills.

Hence, there is a vital need for transparency on the promotion system. The employees need to know the conditions for their evaluation and the availability of promotion. This would be rewarding for them and would bring them closer to the management. The consolidation of these best practices would result in a sustainable culture. The risk perspective has the advantage of strengthening the culture each time a threat is assessed or an opportunity is seized with the help of all the people in the organization.

Chapter 5 Conclusion

The review of the existing risk management frameworks resulted in the need for a framework that considers the importance of the involvement of HR in risk management by facilitating this process. The guidelines provided by the frameworks stipulates the inclusion of the people by creating a risk culture, but fail to illustrate the exact measures that need to be taken for this to happen. This problematic inconsistency is the starting point of this research.

The topic problem raises important research questions to be considered. The link between involving the people in the organization and profitable outcomes has already been created. It remains an important uncertainty of how to include all the people in risk management. In addition, the fundamental research question of the thesis has also a descriptive aspect, asking about the specific actions of HR to improve the risk management of the organization.

The sub-questions are auxiliary to the research question. By answering the sub-questions, a complex reasoning for the main research question is created. In this way, the study aims to discover the role and the required competences of HR in risk management and the organization conditions that facilitate effective risk management.

All the research questions have the frame for their resolution in the theory. A careful theoretical approach was developed after revising the current state of the topic in the literature review. Researchers have already illustrated frameworks for managing HR risks, which immediately determines a strong connection between HRM and RM. In addition, there are studies that show that the work conditions, in terms of organizational size structure and culture, influence the risk perception of the people. The attitudes towards risks play an important role in decision-making, an illustrative example being the effects of near misses. Another finding from the literature is the association of effective risk management with leadership, strategy, entrepreneurship and change management. Finally, the review led to the concept of risk culture and its key aspect of perceiving risks as opportunities.

Therefore, in the literature review I came across the following crucial concepts for my study: risk management, human resources management, decision-making processes and change management. Their interconnectivity led to the selection of theories used for the model creation. The risk management theoretical aspects (classification of the risks and the usage of the risk management function) was combined with the HR Harvard Model (stresses the soft aspect of HRM; being more concerned with the employer–employee relationship). In the interactions between these two broad subjects lies theoretical concepts of decision-making processes, behavior economics and change management models.

The next step in my research was the creation of hypotheses from a theoretical perspective. In order to test the hypotheses, I developed a model and chose three cases for its application. The applicability of the model three situations where risk management had respectively been effectively conducted, failed or was inexistent led to the assumptions that its core fundamentals (the hypotheses) were correctly structured. The results are that the risk/opportunity assessment is a change management process and HRM functions, organization profile and psychological profile of the employees are the factors that influence the risk culture. Not to mention, every risk/opportunity related assessment enhances risk culture, which improves risk/opportunity identification.

The practical approach revolved around the application of the model in three case studies. The first two cases had similar organization characteristics, but opposite risk management outcomes. The final case provided primary data that have been analyzed in order to make managerial recommendations regarding the implementation of the risk management framework I have created.

The observation of the analysis constitutes the answers for the research questions. As the results of the model application were reliable and valid, the hypotheses based on theoretical assumptions were accurate as well. This leads to the conclusion that the vital organization condition is the sustainable risk culture. The role of the people is to consolidate this culture, which will result in a comprehensive risk management perspective. This can only be achieved through strategic leadership and effective usage of key HRM functions (recruitment, training, motivation, evaluation, reward). Changing the culture to a more risk-oriented one should be a progressive process that involves a lot of commitment from all the people in the organization. In order to get people to commit, the communication channels should be open in transparent.

In conclusion, the involvement of people in the organization creates a strong culture. The risk culture is the most valuable competitive advantage that makes the important difference between bankruptcy and maintaining a leadership position.

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Appendix 1

Semi-structured interview 1

22 June 2015 13:00 Skype conversation L.B.

I will ask you 13 questions regarding your involvement in risk management at the organization where you are employed. The interview will last approximately 10 minutes. This constitutes the method collection for a research I am pursuing for my master thesis. Your name and the organization name is confidential.

How did you start working for the company?

Well, I have applied on their website, as I knew that the summer season is coming and that they will be looking for new recruits. The moment I have applied, they have called me. I have attendant an interview and then have started working approximately 3 months ago.

What is your working schedule?

I work approximately 4-5 hours per day, usually between 4 to 6 days per week. Sometimes weekends of sometimes during the week, only in the morning

I see. What is your education level?

I have 2 bachelor degrees and one master degrees. I have finished a master in economics but also I have a bachelor in psychology.

How did you perceive the training you received?

Well, I did not have a training made with a supervisor, but I did have training made with one of the girls working there.

And how was it?

It was ok from certain points of view because this way I learned the working style of the regular girls, but on the other hand I would have appreciate it more if I would have had at least one day of working with the supervisors to show me the correct standards of the company. Because every person that works for the hotel or whichever hotel, has their own ways of doing thing which is not always according with the procedures

Do you thing it constitutes a risk not knowing the correct standards of the company?

Yes it does, very much, because if I follow the indication that was given to the regular employee or every day housemaid you risk when a supervisor checks to be told it is not ok. And they already assumed that you have known some, the correct way of doing without them knowing what you have

actually been told in training. So, there is a risk for myself, a waste of time, turning back and also setting a negative image over myself in the company

I see. But were you trained for handling other sorts of risks?

No

Do you perceive that the company has some sort of risk management policies?

Yes, they do have. They do have a safety… They did prepare us now because of some situations of safety, actually a few days ago, for ourselves and also for the guests. But, we weren't really involved like in asking our opinion or how it would be best. I think it would have been a better idea, because we are the persons actually doing the work. We could have provided a good feedback, but no. We have been prepared a bit, giving us some information about how we should handle some situations, but we are the executants. The people that follow the orders.

But have you ever tried to suggest something to the management?

Hmm. to be honest, I only ask questions. Mostly if I had handled the situations properly. Now it depends also on the person you are speaking to I have once I suggestion but that was a particular case that was an unclear situation of how to handle it. Because some people would say it is best like this, other would say it's best like that. Either way, you cannot do it properly.

I see, but they were open to a communication with you?

Yes they were. I explained each of them my point of view. Each of them understood my dilemma, but we could not really meet an agreement because it is not a matter of communication problem, it's a matter that it is just a problem that you cannot handle it with only one case. The best solution is to do both what I suggest also what they suggest, but the time does not allow you to do both ways.

Have you ever identified risks that the management did not see? For example in the quality of your work or other risks?

They did not really count on time management. They do not count on that at all. Because they have some standards that you have to finish. It's a certain number that you have to finish in one hour or 4 hours depends on the volume of work. But they did not count on what happens if you need more things. The movement from one side to the other corridor, what, how much time you spend if a guest reaches you and speaks with you. And all that time is taken out of you work time. And of course you still have to finish on time therefore the quality drops. You have to sacrifice something.

So what culture do you think it is promoted in the organization?

Hmm, I would say it is a mixture; it is a bit of quantity over quality.

Ok. And what motivates you to do the job?

I guess in the end is the fact that I try to, I don't accept the idea of not being able to do something. I always have problems, it is not my domain the cleaning, and it is not the job where I need to be perfect or to be the star, but never to have complaints about my work quality. i guess it is a matter of self-respect in the end.

Yeah. Do you like working in teams?

Yes, but this is not a teamwork all in all.

Ok. I understand. How does the management communicate changes to you?

Well, usually they inform us in the morning when we reach the office, when we are handed the papers and badges and everything. They inform us of the changes. We usually have like every month at least one meeting. Usually two times. And they inform us of the updates from the hotel, the updates from the company. Usually any changes. I cannot complain. They keep us up to date.

They keep you up to date, but they inform you of strategic intentions they want to implement or they only inform you of the changes already implemented?

No, only about the changes that have been implemented, as I mentioned before, we don't provide much feedback. We are not requested much feedback, therefore I don't think that we have even as a group have any say to do in this decision making process.

That answers all my questions. Thank you very much!

Appendix 2

Semi-structured interview 2

22 June 2015 17:00 Skype conversation G.C.

I will ask you 13 questions regarding your involvement in risk management at the organization where you are employed. The interview will last approximately 10 minutes. This constitutes the method collection for a research I am pursuing for my master thesis. Your name and the organization name is confidential.

How did you start working for the company?

A girl suggested to start working here and helped me to get in.

What is your education level?

I have an AP degree in service management

For how long have you been working?

For 10 months.

How many hours?

20 hours per week.

How did you perceive the training you received?

Difficult.

Why? What happened?

I was shown only the half of the things I need to do and they did not tell me we have a lunch break. It really bothered me. And they had an attitude towards me, they were bossy.

Where you trained for handling risks?

No. nothing. We have never discussed this in all these months. Not even today. No.

So, are you aware of risk management policies?

Not even safety at work. No training in this field.

Are there any risks unidentified by the management that you came across?

Yes. The chemical solutions, for example, are very dangerous.

Did you suggested this to the management?

Yeah. However, they are only concerned about you being fast.

Therefore, what culture do you think is promoted in the organization?

I do not know. They want as to pay attention to details; this interests them and the quality of our jobs.

What motivates you to do the job?

Only the money. I do not work for anything else.

Does it happen often to work in teams?

It happens, but it is worse, because we have many more rooms, so more to work

Are there many changes in the company?

Yeah, the manager has been changed once, and, yeah. The supervisors are always changed and promoted but without deserving it.

How does the management communicate changes to you?

Directly. I just saw it happen.

Was there any meeting to tell you what will happen?

No.

Are you aware of the company's strategy? No.

Thank you!

Appendix 3

Semi-structured interview 3

22 June 2015 19:00 Skype conversation M.B.

I will ask you 13 questions regarding your involvement in risk management at the organization where you are employed. The interview will last approximately 10 minutes. This constitutes the method collection for a research I am pursuing for my master thesis. Your name and the organization name is confidential.

The first question: how did you start working for the company?

Hmm...How did I start working... Hmm.. I applied for job and I got to the interview and then I was supposed to work in Hotel Tivoli, but they needed people immediately in hotel Bellaskype. So they just called me and asked me to come. This is how it started.

What is your education level?

I currently study at master's level.

For how long have you been working for this organization?

Now it will be hmm.. Approximately 4 years. I started in 2011, but I had one-year break, for the baby.

And how was your working schedule? How many hours per week did you work?

It was a part-time job and generally, it was approximately 10 hours a week. 10-15 h/week. Not more than that.

How did you perceive the training you received at the beginning?

We had approximately 3 days of training and the person who was training me was very nice and she has shown me everything, how the room should be done and I think it was ok even though the job was very hard and the conditions were though, I can say.

Yeah, but they train you on risk management? Did they teach you anything about handling risks?

Hmm...No. I don't remember them teaching me anything about risk management. What kind of risks do you mean?

Any kind of risks, regarding safety, your safety, financial risk management if you heard about or any risks policies that you are aware of.

Ok. So not at the beginning, but later on, in my job they introduced us to the safety instructions and in fact it was twice in my work, and history in this company that i was given a paper with the instructions concerning the safety and then we had a test from that.

Ok...

So that was it. I think.

But have you ever come across other risks or threats in your work?

Not really. I don't think. No

Have you ever had any suggestion for the management?

Hmmm. Yes. There was one time a suggestion. It was regarding the management of the time given to employees for doing the tasks, for cleaning the rooms. Because we had only 20 minutes for doing a room and very often it was not enough and because of that we were working like over for which we

were not paid for so this was like that case I was involved in, that I kind of suggested that it was not good.

And how did the management react? Were they open to your suggestions?

They transferred me to another hotel.

So, what kind of a culture do you think this organization has?

I personally think that the culture in this organization is not good at all. And they don't treat people well and they could do a lot better in terms of handling like their employees and giving them like more opportunities. I can also say that the promotion, like you didn't really have clear factor that you put to follow in order to be promoted. It was always that out of nowhere somebody was promoted. And it was very unclear how you could improve yourself in the company. So that was also part of the company that I didn't really like.

Yet, what motivated you to do this job?

Hmm... Only money and the only thing that motivated me was that I had to work in order to sustain myself as a student in Denmark.

Ok. Have you ever worked in teams?
Yes. We sometimes work in couples, I can say. But that was... we simply cleaned rooms together.

Do they promote teamwork?

Not really. Like as for now, I don't think people work in teams. I don't know why was the reason why we were working in teams at that time.

But there were changes in the organization that you faced or had to face?

No. I don't think so. There were not many changes. For all the period, that I have worked there it was more or less the same.

But were you aware of the company strategy? What were their future actions?

Hmm. We were taught sometimes that the company wants to be the best in Copenhagen and for example, the hotel that we cleaned in, the aim was to make this hotel the cleanest hotel in Copenhagen, it was one of their aims that they wanted to achieve and that they told us about. *Did they give you a sense of being a part of their strategy?*

Yes, I can say that they gave me because they complain about bad quality. So, we could really feel that.

Thank you! That was it!