

## **SUPPLEMENTARY NOTE: PLACING RISK AND UNCERTAINTY CENTRE STAGE IN SENIOR SELECTION**

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### Sources

1. The suggestion that organisational reality, particularly at senior levels, can usefully be understood in terms of science, politics and intuition continually contesting with each other is an interpretation of the logic of practice developed by the sociologist Pierre Bourdieu. It formed part of my doctoral work (Board, 2010a; 2011) and was published as 'Choosing leaders and Choosing to Lead: Science, Politics and Intuition in Executive Selection' (Board, 2012). New in this hack is adding to this an actionable version of risk appetite and using the Cynefin complexity framework. The accompanying Powerpoint covers the CIPD/MIX management hack template; this note provides supplementary background.
2. Graham Abbey, Terry Hitchcock and Rob Warwick generously joined as discussants of this idea, within the timescale of the CIPD/MIX hackathon. They span knowledge of complexity and social construction, investment, OD advice, being an HR director, strategic planning and executive search, at senior level. Although I did not know this, Graham had tried the idea of risk appetite with a client. Of course responsibility for the content of this note and the accompanying Powerpoint remains mine. My own experience prior to the doctorate included 18 years in executive search, latterly as deputy chairman of a 50 person London firm.

### Selection at a senior level

3. By 'senior' I mean at or near board level, in organisations large or small, whether in the private, public, academic or voluntary sectors; or the senior executive team level in business units with significant strategic freedom. This level of leadership is about constantly facing challenges which cannot be 'solved' simply by the application of rational techniques or professional specialisms.
4. How to fill organisational positions at this level (executive and non-executive) is particularly relevant to the CIPD/MIX hack, with its focus on actionable revolutions which can be generated from within HR but have strategic impact on organisations' ability to survive and thrive in uncertain futures. Strategic talent management and selection fall to HR to lead; there is an opportunity to create impact in the board room (where HR has for too long fallen short); and an individual senior selection decision provides a bite-sized place to innovate. From bite-sized innovation we travel to strategic impact via succession planning, and the board's role in scrutinising this (including diversity).
5. What are we doing when we choose a leader for a senior position? Only part of our activity is about seeking a 'better' candidate. A key function of those processes is to give us the intuitive feeling of 'knowing enough in order to act', in the face of massive uncertainties which we mostly conceal from ourselves. It's an undiscussed part of why we are so keen on interviewing ourselves candidates whose appointment would affect us, even though we usually carry out that activity very badly. It's part of why astrology or graphology might still play a 'useful' part in selection; or why successful headhunters earn as much as they do. They help us avoid being immobilised by risk.

6. For when anyone is appointed to a senior role, even an extremely well-known internal candidate/'safe pair of hands' into an apparently stable role<sup>1</sup>, the reality is that organisation and candidate have reached a Thelma and Louise, or Butch Cassidy and the Sundance Kid, moment: they leap off a cliff together. In the most primitive selection paradigm, the feeling-of-knowing needed to act is gained by intensifying intuition; metaphorically, we close our eyes to listen to our 'gut feelings'. More specifically, we listen to the gut feelings of the powerful. In modern selection, we trust objectivity and science to give us the answer. This has yielded benefits but had negligible impact on senior, as opposed to front-line and middle management, selection. This hack is about trying to keep our eyes more open to uncertainty, neither exaggerating nor belittling it, as we jump.

#### Operationalizing uncertainty within selection

7. The first step is to replace the idea – explicit in some selection processes, concealed in others – of representing the merits of different candidates in a linear ranking, with each candidate in effect summarised by a point on a scale. Instead the task of the selection process becomes to represent each candidate as a range of uncertainty. Since this process consumes time and brainpower it needs to be restricted to the final shortlist of candidates. Selectors should construct and discuss intuition-informed but evidence-based scenarios for what might happen to our organisation if each candidate was appointed. For simplicity suppose that these organisational outcomes could be represented on a line<sup>2</sup> stretching from terrible to wonderful; then the best-endeavours selection judgement on each candidate is a range on that line, from a pessimistic to an optimistic scenario. Although we will be dealing with intuitive judgements rather than objective probabilities, the statistical idea of an inter-quartile range provides an analogy: we try to represent each candidate by a range, such that the chance of an outcome worse than our pessimistic scenario, or better than our optimistic scenario, is about 25%.
8. This is already enough to get us off first base and put us ahead of current best selection practice. For imagine that we have two candidates, Amy and Bob, for an important role. Suppose we have judged their pessimistic-to-optimistic ranges to be (Amy) 3/10 to 9/10 and (Bob) 5/10 to 6/10. Appointing Amy could result in the mould being broken, in both good and bad ways, while Bob is the proverbial safe pair of hands. Already we can see there is no single objective answer as to which is the right choice; the answer depends on how much risk the organisation should take.
9. Secondly, we borrow from the world of investment the idea of risk appetite. It is not the purpose of business, or investing, to take 'no' risks; indeed the only thing we can say with certainty about an investment or business decision which claims to be risk-free, is that it isn't. However different investment funds (or segments within a wider portfolio) have different purposes, with different levels of risk and reward: equities vs gilts, investment grade vs subprime, developed vs emerging markets (etc). These ideas translate into risk management within companies: if we are running a digital music publishing business, then we might want our choices about artists and songs to be high risk, and our choices about IT systems for taking payment and preventing digital piracy to be low risk.

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<sup>1</sup> Such as Pope John XXIII, elected pope at the age of 77 who, coming from the traditional, intimately known, subset of senior Italian prelates and having shown no sign of reforming desire, in office unleashed unprecedented Vatican reforms – the Second Vatican Council, (eg) ditching Latin.

<sup>2</sup> Of course a line is too simple; even with a linear outcome space (eg if we were concerned only with financial bottom line) there would still be the choice of over time period to make the judgement. Our world is triple-bottom-line-plus in terms of complexity. However this simple step will still allow us to think about a complex world more adequately.

10. Good practice in senior selection should include not only agreeing early in the process a person specification but also a risk appetite. But just as the full benefit of risk-based thinking in investment only comes when one considers a whole portfolio rather than a single investment, by analogy the full benefit of introducing risk appetite into HR selection would come when it is applied systematically as part of succession planning. In scrutinising the succession plans of a company, the board would ask the executives to classify the positions according to (say) low, medium or high risk appetite – and send the homework back to be done again if the executives claimed that all the positions were ‘crucial’ and needed to be filled with minimal risk. For that kind of response would mean the risk concept, and perhaps the reality of making senior appointments, had been misunderstood.
11. Such a system would have three benefits:
- i. making risk denial harder when filling senior positions;
  - ii. generating creative discussions about the business’s market, current position and strategy from having to identify the positions which should have a high risk appetite (and correspondingly high potential reward) attached; and
  - iii. supporting diversity by making hiring executives aware of and accountable for their actions when filling high risk appetite appointments.

When should we have a high risk appetite?

12. We do not want to confuse risk and uncertainty<sup>3</sup> with folly. An investment manager would not be meeting the requirements of a high risk appetite mandate by failing to check which government had issued the bonds which she was acquiring, or by making all her investment decisions at 3pm after a well-lubricated lunch. Similarly, this paper will take for granted that appropriately thorough information has been assembled and checked in relation to the candidate, the vacancy and the organisational or market context. (In any real recruitment, this is a major task.)
13. We are talking about discernible, considered risks – the unknowns which are known to remain after careful consideration of the situation and the candidate. When this consideration has been given, the risk of a candidate is the variability – the size of the range – between the selectors’ pessimistic and optimistic judgements. For example, returning to Amy and Bob: suppose the position to be filled was chief of a police force. Bob might be the existing deputy, and (not simply because of that fact but on thorough consideration) the selectors see no reason why under him things should get worse, but nor can they find reason to think they might get much better. Amy might be a ‘skip a generation’ candidate: exceptionally talented but less senior police leadership experience than would conventionally be considered for such a role, and so offering less track record as evidence. Or Amy might be a former police officer who has gone on to be a successful and popular mayor of a medium-sized town. The argument if this paper is that the choice between Amy and Bob is a question of risk appetite.

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1. <sup>3</sup> Many economists (following Frank Knight) try to distinguish between risk, which can be modelled probabilistically, and uncertainty, which cannot. We can talk about the probability that it will rain tomorrow, but not the probability that the world will end. Because so little in senior selection can be modelled quantitatively, it will not help us to stick to this meaning of ‘risk’, but certainly we need to be alive to the thought. In a connected line of thought, US defense secretary Donald Rumsfeld made popular the notion that there are known unknowns (things which we know that we do not know), and unknown unknowns.

14. What would make a high versus a low risk appetite appropriate? These are significant strategic judgements, in which scientific, political and intuitive factors would (and should) blend – a ‘scientific-only’ answer is not possible. If the force’s performance indicators were generally weak, that could point to a high risk appetite (‘more of the same will not do’) or a low one (‘performance may be disappointing but could be catastrophically worse with ill-judged change’). But in general, since risk is not desirable for its own sake but only as the price to be paid for hoped-for benefits, a high risk appetite should correspond to either a high need for radical change (possibly because of rapidly changing context) or a high and desired opportunity for innovation and setting the pace, discovering new ‘goods’ which are presently unknown. Therefore given a portfolio of appointments, say for example a national set of local police forces, one might expect to see high risk appetites set for some of the outstanding as well as some of the weakest forces, and for some of the middle-ranking forces whose local communities are changing particularly rapidly<sup>4</sup>.
15. Thus far I have sketched a way in which risk appetite might be thought made operational in succession planning (a portfolio of senior appointments) and in a single appointment, and I have made a case for why today’s best selection practice (focussing selection around person specifications without the dimension of risk appetite) is inadequate. However, something important is missing: complexity.

#### Introducing a complexity perspective

16. Central to concepts used in my doctorate<sup>5</sup> were insights from complexity theory. A complex world is one in which the inter-connectedness of many agents means that accurate prediction is impossible. Not impossible because we lack sufficiently lavish budgets to observe or simulate that complex world, but because in the second half of the twentieth century it became possible to simulate such worlds sufficiently for us to know *in principle* that imperceptibly tiny differences (or measurement errors) in the present situation can lead to incalculably large differences in the future. This is notoriously expressed as the butterfly flapping its wings and causing a hurricane. The popularity of that picturesque expression masks the nonsense which it threatens to make of the idea of managers and boards ‘controlling’ organisations.
17. Dave Snowden and his colleagues at Cognitive Edge have constructed the Cynefin<sup>6</sup> framework, an elegant set of ideas and vocabulary which can help us talk about how we make sense of the degree of unpredictability in which we find ourselves (for a ten-minute explanation on video see <http://cognitive-edge.com/library/more/video/introduction-to-the-cynefin-framework/> ).
18. The Cynefin framework describes these domains:

**‘Simple**, in which the relationship between cause and effect is obvious to all, the approach is to Sense - Categorise - Respond and we can apply best practice.

**Complicated**, in which the relationship between cause and effect requires analysis or some other form of investigation and/or the application of expert knowledge, the approach is to Sense - Analyze - Respond and we can apply good practice.

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<sup>4</sup> Is it possible that some situations require radical change with low risk appetite? In other words, radical change is compulsory: the pessimistic and optimistic scenarios need to be close together, both showing radical change. See the Annex for a discussion which concludes that this is a verbal illusion: radical change is high risk.

<sup>5</sup> Notably Stacey’s complex responsive processes of relating. See Stacey (2010).

<sup>6</sup> Pronounced *ki-nevin*.

**Complex**, in which the relationship between cause and effect can only be perceived in retrospect, but not in advance, the approach is to Probe - Sense - Respond and we can sense emergent practice.

**Chaotic**, in which there is no relationship between cause and effect at systems level, the approach is to Act - Sense - Respond and we can discover novel practice.

The fifth domain is **Disorder**, which is the state of not knowing what type of causality exists, in which state people will revert to their own comfort zone in making a decision.' ([www.cognitive-edge.com](http://www.cognitive-edge.com) downloaded 24 July 2013)

19. (Readers familiar with Cynefin and/or complexity thinking may prefer to skip the next two paragraphs) As Snowden emphasises, the framework is a sense-making framework not a categorisation framework. At first we might be tempted to say that it divides worlds objectively into different categories according to the kind of causality which applies; thus two balls on a pool table is simple, analysing the blood spatter pattern around a dead person is complicated and the weather is complex. However in management situations – selection is a classic example – we are ourselves pattern-creating and pattern-sensing parts of 'the world' which we are trying to study and predict.
20. For example, suppose you are learning a foreign language and are trying to join a conversation taking place among a group of friends who have met to go out for the evening. You understand the conversation going on to be simple – whether to take someone's car, catch a train or order a cab. But your understanding of what is going on might suddenly change to chaotically volatile and unpredictable, because the argument turns out to be about moods, money, grievances and undisclosed attractions or animosities. Sometimes it might make sense to say that 'it' (the nature of the conversation) suddenly changed, while in other situations might it be more accurate to say that the change was more in what you noticed and what interpretations you made, than in 'it'. And, if a conversation was simple but for some reason one of the participants suddenly understands it as chaotic, then their changed body language and speaking may make their 'mistake' true. Therefore, in what follows, we are looking at how selection situations might commonly be understood, which may change, rather than placing selection situations in fixed (as it were, physical) categories.

#### Thinking about senior selection prompted by the Cynefin framework

21. See the table on the next page. In each domain of the Cynefin framework, we face a different kind of uncertainty, each of which calls for a different kind of response. Looking back, we can see that the discussion of a risk appetite developed leading up to paragraph 15 is most at home in a simple or complicated domain. The world exhibits significant predictability with (if we have the right expert help) manageable variation. However, with some work, the underlying idea can generalise to the other domains, except that instead of the language of predictability, certainty and uncertainty we more frequently need to understand ourselves acting into an unpredictable future of which we can make more or less sense.

## SELECTION EXAMPLES INFORMED BY THE CYNEFIN FRAMEWORK

What kind of world do we think we are in?	A stripped-down selection example in an individual setting	A selection example in an organisational/leadership setting
<b>Simple</b> – an objective criterion reasonably apparent to all	Choosing an athlete to represent this country in the 100m sprint	Choosing a CEO for a business which has effective line management but needs to slash costs and exit unprofitable businesses
<b>Complicated</b> – use expert interrogation of detailed track records or other data	Choosing a surgeon to treat a complicated injury	Choosing a manager for the England football team, the Lord Chief Justice or the successor to Warren Buffett at Berkshire Hathaway
<b>Complex</b> – expert advice might be helpful but cannot make the decision. We may well explain what happens in terms of the qualities of the person chosen, but it will be <i>post hoc</i> rationalisation	Whom to marry	Vice-chancellor (CEO) of a large university with mixed performance and problematic line management
<b>Chaotic</b> – anyone could be chosen, we make ‘the right choice’ right by how we behave having made the choice	Which child in an orphanage to adopt	Who should win the Booker prize

22. We still ask the selectors to generate scenarios for what happens with each candidate. Previously, in effect we mapped these onto a range of variability (from pessimistic to optimistic) of outcome values. The average of the range defined the predicted result for that candidate, and risk was the degree of variation (ie uncertainty) around that prediction. In a complex domain, we would similarly imagine generating for each candidate the collection of all the scenarios we can think of which make sense consequent on that appointment. (Like Rumsfeld's unknown unknowns, scenarios outside this envelope could happen but we cannot fruitfully think about them while we cannot make sense of them.) Putting ourselves into each scenario which does make sense, we make an evaluation of the outcome – how happy are with the result? While we cannot assign mathematical probabilities to scenarios, we can discuss and assign subjective weights, after which we can work with risk as the variability of the range of outcomes as before.

23. What does that mean in terms of Amy and Bob (paragraph 8)? Before, although this may not have been explicit, we positioned ourselves in management's preferred world, one of

significant predictability and manageable variation in which intelligent and trained managers can accomplish a lot. We were happy to suppose that differences in outcome were significantly, although not completely, determined by agents' skill. Now, if we reached the same ranges of (Amy) 3/10 to 9/10 and (Bob) 5/10 to 6/10, we still face a choice between a 'wild card' and a 'safe pair of hands', and to some degree the previous discussion still applies. But not completely. If Bob truly were a 'dull' candidate, delivering according to routine but not much more, then the exercise of imagining scenarios in an unpredictably changing world should have generated some with some awful scores, so dull-Bob's range might have come out as 1/10 to 6/10, possibly making Amy the 'safe' choice.

24. Paragraphs 22-23 trace a necessary logical argument but is too intellectually challenging a procedure for most senior selections. However its essence can be captured in a more user-friendly way as advocated in the hack, using the Cynefin framework. We would ask selectors to work with risk and risk appetite as discussed in paragraphs 13-15, but also, at the beginning and again at different points in the selection process, to ask themselves in which Cynefin domain do they consider the challenges facing the person selected to lie – and to consider the nature of unpredictability and risk appetite accordingly. A consequence of this would be that the risk appetite (and the person specification, and possibly the valuation of different outcomes) might change as the selection proceeds. But how could it be otherwise, if we are properly to have recognised the central place of risk and uncertainty in any senior selection?

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## CHECKING THAT RADICAL CHANGE NECESSARILY ENTAILS HIGH UNCERTAINTY

Let us examine three scenarios which might argue the opposite. Take as the starting organisational scenario the community school in a peaceful, island community, needing to appoint a head. The highly rural community receives some subsidies (including the salaries of the teaching staff) from the national government; the government's approach over recent decades has been benign neglect.

- (i) A new minister of education discovers that the school has accidentally been omitted from the compulsory introduction a few years ago of a rigid national curriculum. To teach the new curriculum requires radical changes in teaching skills and the organisation of staff and pupil time, as well as in taught content. The minister has given the island school one year to change, after which inspectors will be sent and funds cut off if the change has not been implemented adequately.
- (ii) The island harbours an unsuspected psychopath who has the means and the will to mark the new year with a killing spree at the school.
- (iii) Climate change predictions show that within twenty years, changed sea levels will have made the islands uninhabitable.

In each case, an argument could be made that there is radical change with low or minimal uncertainty. In the first case, which is typical of a class of real world management situations which we might call attempting change by fiat, the argument is that if the school does not change radically, its budget will be cut off so it will cease to exist (ie it will change radically). The second and third cases do not normally correspond to management situations but are logical scenarios for the purpose of clarification.

In fact all the scenarios confirm that radical change does entail high uncertainty: the outcome of the change for the organisation, in terms of which elements of what constituted the school are now where, doing what and connected how are extremely unpredictable. What is highly predictable is that 'some' radical change will have taken place.

The point is made very well visually by Cornelia Parker's artwork 'Cold, Dark Matter' (1991) which shows a garden shed in mid-explosion.

