HOW DO RISK MANAGERS BECOME INFLUENTIAL? A FIELD STUDY OF TOOLMAKING AND EXPERTISE IN TWO FINANCIAL INSTITUTIONS

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Abstract
In this study, we examine transformations in the influence of risk managers in two large UK banks over a period of six years. Our analysis highlights that a process we term toolmaking, whereby experts create, articulate, and shape tools that embody their expertise, is central to the way in which the risk managers in our study garner influence in their organizations. Based on our field study, we identify two dimensions that help to explain experts’ organizational influence: their ability to (a) incorporate their expertise into highly communicable tools; and (b) develop a personal involvement in the deployment and interpretation of its tools in important decision-making forums. Based on experts’ ability to combine and balance these two processes, we distinguish analytically among four positions of influence they can occupy—compliance expert, technical champion, trusted advisor, and engaged toolmaker—and trace the movements of experts between these positions. Our empirical findings and theoretical framework contribute to our understanding of how and why experts, such as risk managers, can become influential.

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Introduction

Risk management as a technical discipline has been present in financial institutions for more than fifty years; however, its separation from insurance and corporate finance is a more recent phenomenon. Fuelled by regulators’ and market participants’ long-held demands for “good management,” since the mid-90s, risk management has been advocated as a corporate governance and management control practice applicable across all industries. Ironically, the emergence of risk management has coincided with the global financial crisis of 2007-2008, which has been cast as a risk management failure on an unprecedented scale. The financial crisis and the continuing risk debacles led regulators and industry observers to call for firms to have executives exclusively devoted to firm-wide risk oversight, particularly since it emerged that firms that suffered salient losses (such as UBS and Citigroup), or failed altogether (such as New Century Financial and Lehman Brothers) had ineffective risk oversight. In contrast, observers claim that firms that survived the crisis had a highly visible and vocal internal risk management function and a leadership team that understood and actively managed the risks of their company’s exposure (Buehler et al., 2008; The Economist, 2009; Croft, 2009). But in fact, research evidence on the value added of risk management functions is mixed (Beasley et al., 2008; Lin et al., 2010; McShane et al. 2011), and it has been forcefully argued that deductive academic research in this area is premature (Kaplan, 2011). Before we can ascertain if risk management indeed has a differential influence on firm performance, we need to understand how (if at all) risk managers themselves exercise organizational influence.

Risk managers’ quest for organizational influence can be seen as a recent act in a larger and longstanding drama unfolding both inside and outside organizations: the competition of experts for visibility and voice in the increasingly crowded landscape of management practices and ideas (Guadalupe et al., 2012). For example, Mintzberg (1994) documents the emergence, heyday, and decline of strategic planning functions, while Zorn (2004) shows how chief financial officers have come to occupy strategic decision-making roles with a focus on managing shareholders and stock prices (Zorn, 2004). Although management accountants were traditionally seen as acting on behalf of managers to help with the implementation of strategies (Otley & Berry, 1980; Macintosh, 1985), recent research reveals a potentially more prominent role in analytical tasks, advisory services, and decision-making (e.g., Burns & Baldvinsdottir, 2005; 2007; Granlund & Lukka, 1998; Byrne & Pierce, 2007; Jarvenpaa, 2007; Mouritsen, 1996).
Explanations of the changing influence of experts have tended to focus on environmental (e.g., internationalization) and organizational (e.g., production technology, restructuring) characteristics, along with the individual qualities (e.g., interpersonal skills) of the experts themselves (see, for example, Burns & Baldivisdottir, 2005; Granlund & Lukka, 1998; Byrne & Pierce, 2007; Jarvenpaa, 2007; Mouritsen, 1996). Other research has focused on the importance of cognitive and political factors in wielding influence, particularly the activities and tactics deployed in issue-selling (Dutton et al., 1997, 2001), sense-giving (Gioia & Chittipeddi, 1991), knowledge-sharing (Carlile, 2004), and framing (Kaplan, 2008).

A growing and influential strand within this literature foregrounds an analysis of the tools that actors mobilize in their attempts to influence others (Bechky, 2003; Carlile, 2002, 2004; Kaplan, 2011). Here, the focus is on how actors mobilize “infrastructure that enables [them] to be the actors they are” (Hardie & MacKenzie, 2007:74). In this literature, tools (artifacts such as engineering drawings, prototypes, formal reports and presentations) are deployed by experts to portray their expertise to others in the organization, and play an important role in facilitating the influence of actors, but we see relatively little about the construction and reconstruction of the tools themselves.

Our research focuses not on the tools per se, but on toolmaking, which we define as a set of practices by which experts create, articulate, and shape tools that embody their own expertise. We also focus on how a particular type of expert, the risk manager, produces and mobilizes tools, such as structured reports, scenario analyses and risk-based performance measures, in order to gather influence (Mikes, 2009, 2011). We ask the following research questions: How do risk managers gather influence? What role does toolmaking play in gathering expert influence?

We analyze the toolmaking by risk management experts at two large banks in the United Kingdom (UK). Using separate field studies, we first describe elements of these experts’ aspirations, organizational roles, and connections that shape their toolmaking efforts and influence. From this analysis, we extract two principal dimensions that characterize the experts’ toolmaking and influence: the communicability of the tools and the experts’ personal involvement in the deployment and use of the tools. We define a tool’s communicability as encompassing two related elements: its relevance and the understandability of the tool to the user.

We then develop a conceptual framework – which we see as our main contribution – that describes the dynamics of experts’ organizational influence, distinguishing between four positions of influence that experts can occupy – compliance expert, technical champion,
trusted advisor, and engaged toolmaker – defined by the two dimensions of toolmaking. Our framework is dynamic, allowing us to identify toolmaking strategies that affect the transformation of expert influence in organizations.

In the following section we discuss the relevant theory, drawing on both the management accounting literature and a wider managerial research literature on influence-seeking inside organizations. The third section describes our research methods. The fourth and fifth sections present the two case studies. The final section discusses our findings in light of our conceptual framework.

The changing influence of experts

There has been much discussion about real or perceived changes in the importance of experts in organizational life (Baldvinsdottir et al., 2009; Smith & Davies, 2009; Webster et al., 2005; Power, 2007). The image of the management accountant has certainly changed over the past 50 years. In the 1970s, accountants were seen as rational agents providing accurate and timely information for business colleagues; by the 1990s, they were increasingly perceived as action-oriented communicators and potential business partners. Now they are considered to be handing over much of their role to technological data-collection and dissemination systems (Baldvinsdottir et al., 2009). Granlund and Lukka (1998), however, view an expansion in the role of management accountants, who started off as “historians of the organization,” became watchdogs, then advisors/consultants, and are now seen as “agents of change.” Others argue that accountants have a continuing prominent role in analytical tasks, risk assessment, advisory services, and direct involvement in decision-making (e.g., Kaplan, 2011; Byrne & Pierce, 2007; Jarvenpaa, 2007; Mouritsen, 1996). Most often, such developments are described as an evolution from the role of “bean counter” to that of “business partner.” Nevertheless, such changes have more to do with image than with practice, as management accountants still focus primarily on producing information for management and less on taking part in designing strategies.

Human resource (HR) functions have been urged to transform HR from a back-office administrative function to one that is strategically aligned to the needs of the business (Jamrog & Overhold, 2004; Smith & Davies, 2009). Marketing functions have witnessed a perceived decline in importance and influence, their role now often embedded in other functions such as product engineering and sales (Webster et al., 2005). Sociological research on historical developments in the transformation of corporate control shows that different groups become
important in running a company as its structure and strategic focus change (Fligstein, 1990; Zorn, 2004). In particular, Zorn highlights how the influence of the chief financial officer (CFO) position increased as the role focused more and more on managing shareholders and stock prices. More recently, as organizations began to perceive risk as a manageable issue, risk managers and chief risk officers have become more prominent and influential (Power, 2007).

**Gathering organizational influence: Competition and knowledge-sharing**

Recent advances in the management literature seek to explain how certain organizational actors become influential while others do not. These studies generally imply that “influence” is an actor’s ability to shape the ways in which others perceive and frame organizational issues. We group these studies into two strands, one which conceives influence-seeking as competition in a “marketplace of ideas” and another which sees it in a more collaborative, knowledge-sharing context.

Experts can be seen as actors who operate in a marketplace of ideas and issues, in which they compete for the attention of key organizational decision-makers (Dutton et al., 1997, 2001). They do so by “issue-selling” in the early stages of decision-making, guiding top management to pay attention to issues and trends that have implications for organizational performance and to understand those issues and trends in certain ways (Howard-Grenville, 2007). Gaining top management’s attention also involves the potential for reputational gains or losses (Dutton et al., 1997), and thus can affect the image of incumbents in the eyes of others.

Actors have also been shown to try to guide others’ sense-making and meaning construction toward a preferred redefinition of organizational reality (Gioia & Chittipeddi, 1991; Maitlis; 2005, Johnson et al., 2007). These studies focus on the communicative and interpretive behavior deployed by sense-giving actors – how they envision, signal, and bring about change while overcoming vested interests that object to it. Kaplan (2008) points to the lengthy and involved analyses that engineers and marketers deployed in arguing for and against an engineering project in the course of framing contests. Here, cognitive frames (the means by which managers make sense of ambiguous information) are the resources for transforming and promoting actors’ interests. In the competitive world of stock market analysts, Beunza and Garud show how financial analysts also develop and mobilize frames, which are highly specific to their own expertise and experience (Beunza and Garud, 2007).

Another strand of studies highlights how occupational groups can engage in knowledge-sharing and collaboration rather than competing with one another (Bechky, 2003; Carlile, 2002,
2004; Kaplan, 2011). Accordingly, managers can increase their influence by constructing a common language and symbols (Maitlis & Lawrence, 2007; Hope, 2010) with which they convey their knowledge within functions and across functional boundaries (Carlile, 2002). In turn, such communicative media can give new meanings to existing labels (Corley & Gioia, 2004) or help to construct new explanatory narratives about the organization (Dunford & Jones, 2000).

Much of the normative management literature regard tools as existing, predetermined artifacts displaying certain intrinsic merits that can bring them to the attention of the appropriate people; as Woolgar (2004:450) put it, “In this perspective ideas are active. That is, […] the best, most robust ideas ‘will out’”. An alternative constitutive perspective takes issue with the presumption that tools and ideas possess an intrinsic, unchanging character and argues that the nature of tools in organizations can be radically open-ended. This perspective highlights how ideas (be they manifest in tools, products, or accounting standards) are constituted in the processes of their articulation and representation (Woolgar, 2004; Power, 1992). That is, tools change in the processes of being developed and deployed in the organization. This explains why the current paper focuses on “toolmaking” and the emergence, transformation, or disappearance of tools in the processes of influence, knowledge creation, and knowledge sharing.

Toolmaking and the influence of experts

Conceptualizing experts as competing for influence or as sharing knowledge raises the question of how knowledge is produced and communicated in organizations. Nonaka (1994) and Nonaka and Toyama (2003) introduce a dynamic theory of knowledge creation, stipulating that experts, among other organizational actors, seek to change their own personal knowledge (learning by doing, interpersonal communication) into explicit and formal knowledge. We argue that toolmaking, the process by which experts create, articulate, and shape tools that embody their expertise, plays a vital role in increasing their influence. The experts that gain influence in the organization through toolmaking do so by incorporating into the tools elements that they believe would be viewed as different and unique (so they can compete effectively with others in the organizational marketplace of ideas), but they also strive to make the tools relevant to the activities of the tools’ intended users. Uniqueness and relevance are not always compatible traits; achieving both can requires a balancing act. Experts may bring about their own obsolescence by educating others to do without them (Burns & Baldvindsdottir, 2007). As Power (1992:8) put it: “Expertise, if it is to survive as
unique expertise rather than being broadly disseminated, can never fully disclose itself.” In contrast, experts can resist transferring too much of their knowledge to others (Byrne & Pierce, 2007), fortifying their position by maintaining enough indeterminacy that they are needed for the application of their own techniques (Armstrong, 1985).

To understand how toolmaking relates to the influence of experts in question, risk managers, we propose two observable criteria that indicate how they aim to balance processes of expertise-based competition and knowledge-sharing. First, to what degree (if at all) do risk managers incorporate their expertise into highly communicable tools (in order to facilitate knowledge sharing)? Second, to what degree do risk managers maintain a personal involvement in producing analysis and interpretation in important decision-making forums (thus maintaining differentiation in the competitive organizational marketplace for ideas)?

We analyze our empirical findings to show, in detail, the practices that risk managers use to balance these two interrelated elements of toolmaking and, on the basis of this analysis, we conceptualize four positions of influence that risk managers can occupy (see Figure 1). **Compliance experts** play an important role (e.g., maintain systems to meet regulatory requirements), but produce tools that are not highly communicable to others in the organization. Hence, these experts have little involvement in decision-making outside compliance issues. **Technical champions** have made their tools so communicable – relevant to activities and easily understandable – that they themselves are no longer necessary to promote those tools or help others use them. As a result, technical champions are marginalized and have little direct impact on decision-making. **Trusted advisors** influence others predominantly through their personal experience. They offer seasoned judgment, but do not build tools in which their knowledge can be embedded. Their potential influence is therefore limited to the direct social connections they create and maintain within the organization. **Engaged toolmakers** develop highly communicable tools, but also maintain a personal involvement in the relevant organizational decision-making forums.

<insert Figure 1 here>

**Research design**

**Site selection**

Given the lack of research on how risk managers become influential, our research draws
on an exploratory field study (Ahrens & Chapman, 2004; Free, 2007; Wouters and Roijmans, 2011) to collect empirical evidence and generate theory about how toolmaking affects the influence of experts. In particular, we chose to study financial risk managers in banks. Following a theoretical sampling rationale (Eisenhardt & Graebner, 2007), we chose risk functions in two case study organizations, referred to here as Saxon Bank and Anglo Bank. Each bank focused on two major business lines: corporate lending and consumer lending. The impending regulatory requirements of the Basel II accord and, in particular, the practice of incorporating risk-assessment measures into capital allocation procedures and the quantification of credit risk (Bank for International Settlements, 2005) motivated the managements of both banks to establish similar high-ranking risk positions, from which the risk functions could influence strategic decision-making. The two banks exhibited many similarities, which can help aid comparisons between cases (Free, 2007), and made the pair a natural testing ground for us to investigate (1) how risk managers attempt to increase their influence, (2) what role, if any, toolmaking plays in their attempts, and (3) the characteristics of those tools.

Data collection

Seeking to understand how the influence of risk managers changes over time, and knowing that changes in accounting can take considerable time (Wouters and Roijmans, 2011; Ahrens and Chapman, 2004), we collected data over a six-year period. One of us undertook an internal study of the risk management practices of Anglo Bank, working for 18 months (between 2005 and 2007) in the risk management function and collecting firsthand data, based on participant observations, concerning the organizational contexts in which Anglo Bank’s risk management operated and the historical background of these contexts. These data served as background for the author’s 34 semi-structured interviews with Anglo Bank risk officers, senior risk managers, and business executives, carried out between 2005 and 2009.

In 2006, the authors engaged Saxon Bank in a comparative study on risk management. Between 2007 and early 2011, we carried out 26 in-depth interviews, both at Saxon Bank’s corporate center and in some of its divisions, matching the range of interviewees to the roles of the risk officers already studied at Anglo Bank (see Appendix 1 for a list of interviewees in both banks). The interviews ranged in length from one to two-and-a-half hours; all were recorded and transcribed. We also used internal documents such as internal risk reports, internal presentations, and risk management guidelines and analyzed both banks’ annual
reports published between 2000 and 2010. Consistent with the approach of prior research (Ahrens and Chapman, 2004), we decided to end our fieldwork when we had developed a clear sense of the operations of each risk function and how their influence-seeking practices had come to take their forms.

Data analysis

We conducted a two-stage analysis. In the first stage, we analyzed each of the cases independently and produced an analytical narrative of the changes in each risk function during the research period. The design of our within-case analysis was based on our awareness that the process we describe – the attempts of a group of experts to increase its influence – is a complex, multi-faceted historical narrative, the origins and some of the outcomes of which are likely to be outside our data-collection abilities. Hence, we tried to capture and preserve the actors’ accounts of events as they perceived them, and then triangulated these accounts (particularly through publicly available documents, such as annual reports) to produce a more comprehensive picture of the organizational changes (Abbott, 1992). In this way, we identified actor-presented themes in the data (Glaser & Strauss, 1967), highlighting distinct categories such as contextual factors, important organizational processes, risk activities, decision-making incidents, and the strategic planning process, while making sure to highlight how these categories changed over time.

In the second stage, we compared and contrasted the two detailed analytical accounts, enriching with cross-organizational insights our picture of the processes we had identified and analyzed. We used these insights iteratively in our theory-building, which we present and discuss in the last section of the paper.

Findings

In response to the impending regulatory requirements of the Basel II reform, Saxon Bank and Anglo Bank had created similar high-ranking positions for the senior executives in their risk functions. Nevertheless, we found significant differences in the influence of these two functions. Using our analytical framework, we analyze these differences and argue that, in Saxon Bank, the risk function’s influence progressed towards the position of engaged toolmakers as this risk function designed and developed a series of highly communicable tools that could be used by others. At the same time, key risk officers also became more
engaged with senior executives in committees and business reviews (personal involvement in producing analysis and interpretation in important decision-making forums). In Anglo Bank, however, we identified one group of risk experts that was active in toolmaking, but failed to make its tools communicable enough to others to achieve the influence it sought (compliance experts). Another group had become influential through its members’ individual experience and participation in business-relevant decision-making, but refrained from toolmaking to extend its influence beyond their own personal involvement (trusted advisors).

Saxon Bank

Saxon Bank is a large, primarily UK-based financial services organization with over 70,000 employees. It is a well-established bank with more than 200 years of history and operates three business lines: corporate banking (responsible for 33% of pre-tax profits in 2007), retail banking (42%), and insurance (25%). Three central functions—Group Finance, Group Corporate Strategy, and Group Risk Management—provide support to these business lines.

Throughout the period of our field research, Saxon Bank’s risk function was headed by the same Chief Risk Director (CRD). Other important operatives within the function were the Deputy-CRD and the Divisional Risk Officers. At Saxon Bank’s headquarters, approximately 75 risk officers were employed directly in Group Risk. Approximately 2,500 divisional risk staff (reporting to Divisional Risk Officers) were responsible for risk processes within divisions and business units.

We trace the transformation of the risk function at Saxon Bank as follows. First, we focus on the structural changes and toolmaking activities central to the rise of the risk function beyond its initial compliance role. Second, we analyze how the risk function aimed to embed risk practices more widely throughout the bank through the development of planning and reporting tools. Third, we highlight how, during the credit crisis, the risk function brought about a particular framing of the world and of Saxon Bank’s strategic choices, which gained currency among decision-makers and top executives.

Rising beyond compliance

After a period of poor performance, a new CEO and management team were appointed in 2003-2004. This team recruited a new head for the risk function who was given the title of
Chief Risk Director, replacing the previous role of Director of Group Risk Management (Annual Reports 2002 and 2003). The change in title meant that the CRD reported directly to the CEO, was on par with other group heads, and was a member of the bank’s highest decision-making forum, the Group Executive Committee, where strategic decisions were made. The CRD described her role on the Committee as follows:

The Group Executive Committee meets every week, chaired by the Group Chief Executive, and we kind of decide what goes on around here. There are two aspects to that. One, I’m part of the team that runs the business collectively. Two, actually, by doing that, I really do know what’s going on around here and nobody can do anything important that I don’t know about.

This view was corroborated by the Risk Modeling and Aggregation Director:

The former Group Risk Director wasn’t on the Executive Committee. And it’s made a huge difference … massive … because she's live in decision-making. So it’s absolutely critical if a risk function wants to have teeth … If you’re not in the gates, you’re the guy that just adds up the numbers.

Risk executives saw participation in the Executive Committee as crucial for achieving more influence, as it provided the CRD with direct access to decision-makers at the highest levels. Without such access, as the Risk Modeling and Aggregation Director implied, risk managers may compile important information, but have little opportunity to use such information in important organizational committees.

In 2003, Saxon Bank’s risk function also designed and implemented a set of reporting procedures centered on a governance tool termed the Risk Management Framework, a governance document dispersed throughout the bank via the network of Divisional Risk Officers. This document established a reporting responsibility between the Divisional Risk Officers and the CRD. Saxon Bank’s Annual Report from 2004 indicates that Divisional Risk Officers also reported to their divisional Executive Director, which enabled them to get access to local information. They would then channel this information to Group Risk, according to centrally distributed risk guidelines, policies, and risk management practices. Collecting and monitoring the same measures across all divisions and incorporating them into the risk function’s main reporting document helped Saxon Bank’s risk managers develop a common risk vocabulary and perspective.

1 The 2004 Annual Report describes the role of the Group Executive Committee: “The Committee [that] considers the development and implementation of strategy, operational plans, policies and budgets; the monitoring of operating and financial performance; the assessment and control of risk; the prioritisation and allocation of resources; and the monitoring of competitive forces in each area of operation.”

2 This development, although focused primarily on the risk function, was also regarded as important enough by Saxon Bank as a whole to be mentioned in its 2004 Annual Report: “The direct reporting line (from the Divisional Risk Officers) to the CRD [which was established through the Risk Management Framework] enables [Saxon Bank] to maintain a wide ranging and current perspective on material risks facing [Saxon Bank] and provides a mechanism to share best risk management practice.”
Having established a unified reporting regime, the risk function aimed to “export” its expert view to the bank’s most senior managers. In 2004, the CRD initiated a quarterly Consolidated Risk Report (CRR), intended for the members of the Group Executive Committee. About 40 pages long, the CRR reported on trends in six risk areas: market risk, credit risk, insurance risk, operational risk, business risk, and financial soundness (Annual Reports 2004 and 2005). The production of the CRR was a continuous, iterative, and consultative process. Two members of the risk function prepared the initial draft with guidance from the Deputy-CRD. The draft was circulated to senior colleagues within the risk function for challenge, debate, and comment, in light of which a second draft was prepared. The Deputy-CRD presented the second draft to a committee composed of the eight most senior risk officers, after which another draft was prepared. The CRD then personally revised the CRR and presented it to the Group Executive Committee for discussion. The CRR was updated again before being presented to the Board and then finally to the Risk Oversight Committee.

This cautious consultative approach reflected the risk function’s understanding that it was only one part of the central group of support functions, and not in a position to directly influence the planning processes of the divisions and businesses – this was the responsibility of divisional managers. The Deputy-CRD summarized the situation as follows:

Our divisional heads view [our involvement in strategy discussions] as very much stepping on their toes. You know [they would say], “How dare they challenge my strategy?” So we have to be very careful what we look at. And certainly there have been a number of discussions with the CEO along the lines of “You can’t say what the strategy should be.” We are not permitted to say, “Oh, the strategy is rubbish. We should do something different.”

This concern not to encroach directly on strategic issues was evident in the labeling of risk categories in the report. As the Deputy-CRD recalled:

As part of the Consolidated Risk Report, our business risk section used to be called “strategic risks,” but that really did upset everyone, so when I took over, I said, “Oh, we’ll call it “business risks.”… It’s like the EU treaty; it’s exactly the same, we just changed the name.

Along with careful attention to language, the risk function also regularly changed the key features of the CRR. The CRD asserted, “You need to put grit in the system. You need to

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3 The 2005 Annual Report offers additional evidence of this iterative mode of preparation: “At group level a consolidated risk report is produced which is reviewed and debated by group business risk committees, group executive committee, risk oversight committee and board to ensure senior management and the board are satisfied with the overall risk profile…during the year the Group’s consolidated risk report was further enhanced…”

4 The aim of the Treaty establishing a Constitution for Europe was to replace the existing European Union treaties with a single text, and to enact some institutional reforms. However, the ratification process was brought to a halt in 2005, when French and Dutch voters rejected it. The Treaty of Lisbon was then drafted. Virtually identical to the original treaty, the Treaty of Lisbon formulated the changes as amendments to the existing treaties. It was signed in December 2007 and entered into force in December 2009.
keep changing things, otherwise people fall asleep.” Avoiding the use of technical jargon, the risk function sought to ensure that members of the top management team unfamiliar with risk analytics could understand the report. Although the report contained output from complex risk models, risk officers took great care to ensure that the accompanying explanations were adequate for a non-risk-specialist audience, particularly at the Board level. For example, the first three or four pages of each report were dedicated to a “traffic light” representation of risks, with red signaling the need for immediate attention from executives and amber and green, less imminent risks. The Deputy-CRD remarked:

I wouldn’t last very long if I gave them a spreadsheet and said, “It’s all in there, mate. You figure it out.” … It’s the analysis. The numbers are just one part of it … we use that as input to write the report … We spend a lot of time writing these reports and it’s analysis for the Board.

The strong focus on translating numbers into qualitative interpretations was coupled with an emphasis on limiting the CRR’s length. For example, during 2007, the CRR was reduced from about 40-50 pages to not more than 20 pages, with a maximum of two pages per risk type. The CRD emphasized the positive effect of the CRR on the executives and the Board:

And certainly, you know, for the Board, they always say … that they learn more about the business—and what’s going on in the business and how well it’s doing—from the risk report than from anything else they see. And they say that every time.

Important to the risk function’s attempts to expand its influence was the way in which the business units’ views were incorporated into the CRR. Rather than expecting business units to report key risk trends (through their Divisional Risk Officers) to the central risk management function, central risk officers actively sought out issues in the divisions by talking to business people. In her initial years at the bank, the CRD made a habit of spending one day a week talking to people on the ground who were running various activities. Many senior officers from the central risk function followed her example and the Deputy-CRD further encouraged his team to act as “the eyes and ears” of the Executive Committee and the Board:

[I tell my team], “If you were the Executive Committee and you dug deep down within parts of the organization and found something—‘Oh my goodness, I didn’t know we’re doing that’—you would have to go, ‘We need to do some work on it.’” So we identify [the risk] and do the work and then report it up to the Board.

By taking this approach, the risk function espoused that risk management and business were inseparable; risk managers had to understand the bank’s strategy and the businesses’ operations in order to understand the risks. As the Risk Modeling and Aggregation Director put it, “You can’t actually talk about the risks in the business without actually telling the story
of what the business is doing.”

In short, the efforts to increase the risk function’s influence took place in two related areas. On the one hand, the risk staff incorporated the CRR, and the expertise it conveyed, into Saxon Bank’s top-level decision-making forum. On the other hand, the expert views expressed in the report were informed by the insights, preferences, and considerations of the business managers.

**Reporting about the future**

The CRR’s growing influence in strategic-level discussions exposed another dimension of that tool. Saxon Bank’s risk officers noticed that the report prompted executives to engage in debates that were often forward-looking and related to the strategic plans under consideration. The Director of Risk Aggregation and Modeling explained:

> When [the CRR] goes to the Executive Committee, they can look at the overall risks and decide whether the report is fairly representative of the way they think the risks are. Secondly, are they happy with the risk profile? Because you may be in a position where you are happy to be red on change risk, for example when you want to drive a strategic change through. So what you’re saying is, “Look, we want to do this, so we’re going to run some change risk.” Or you might say, “We’re not happy with this customer treatment risk” or “We’re going to change our strategy, so our strategy risk will go up.” So [the CRR] is trying to get those sorts of debates. And we are also getting the risk-reward debate up and going as well. For example, if we wanted to grow our income by this amount over the next five years, what would happen to our risks?

The seemingly spontaneous rise of such forward-looking questions and arguments in the strategic decision-making debates coincided with the risk function’s proposal that a formal future-oriented calculative practice, scenario analysis, should become part of Saxon Bank’s annual and medium-term planning processes. Scenario analysis involved specifying hypothetical scenarios and examining their financial implications, usually in the form of likely losses (Crouchy et al., 2001; Schwartz, 2001). At Saxon Bank, scenarios typically described economic conditions that were believed to prevail in recessions occurring with a frequency of “one in seven years” or “one in 25 years.” In response to the risk function’s “what if” questions, the business managers were asked to “stress test” their proposed plans and come up with alternative “Plan B’s.”

The medium-term planning process had taken place under the umbrella of the Group Finance function^5^.

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^5 Each business unit (and subsequently each division) developed strategies and profit-and-loss projections for the forthcoming three years. The central finance staff aggregated the plans and presented them to the Executive Committee. Senior executives and the Board approved (or requested changes to) the pro-forma profit-and-loss projections and the requisite capital requirements of each business unit. The medium-term targets then
This gave the risk function an opportunity to insert the risk view into an existing and organizationally significant process with strong accountability mechanisms in place instead of having to create an entirely new process and convince busy managers to invest in it. Importantly, the risk function had already established a close and collaborative working relationship with the finance function, supported by the CRD being structurally on an equal level with the Group Finance Director.

The Deputy-CRD explained:

The best delivery mechanism by far is Group Finance's medium-term planning process, because it's a framework. Everyone has to do it, otherwise the Group Finance Director will have a chat with them. They [business units] all know how it works, so by working with finance people, when we ask for something to be done, then it gets done. So it's not like separate papers coming out from Group [center]. It's the regular planning pack and the guidelines for completing the medium-term planning process. We just dovetail our extra page in and it's seamless.

But timing was a challenge. At first, business plans and scenarios were both developed separately during the third quarter of the year, which did not allow for cross feeding between the two processes. In 2008, the risk function moved scenario analysis earlier in the planning cycle so that risk considerations, particularly those related to severe economic downturns, could frame the development of plans within the business units.

The risk function needed to convince the business lines that its scenarios were credible. As scenarios could ultimately affect business plans and subsequent incentive compensation, it was expected that business units would resist running scenarios that were perceived as overly pessimistic or out-of-touch with their own views. The risk function therefore involved the most senior managers of each division in developing the scenarios, giving them “pre-emptive” acquaintance with the scenarios. As the Deputy-CRD explained:

The draft scenarios will be challenged in each of the divisions … and only then will they be used in the medium-term planning process, because, on that basis, everybody would have bought into them. So rather than the Group just giving them more work to do, they will say, “Oh, here's my scenario that I report into.”

This was corroborated by a Managing Director from the Commercial Banking business unit who explained to us that the divisional manager and his senior staff discussed the scenarios, debated the parameters and levels of stress, and then fed this information back to the risk function. The heads of business lines could therefore recognize their own ideas and definitions in the final version of the medium-term plan.

As the risk function worked to involve the business units in scenario development, it also sought to demonstrate its credibility by creating a suite of economic indicators that would provide the basis for each scenario. This tool came to be called the Early Warning System formed the benchmarks for divisional performance evaluation and senior management compensation.
The development of the EWS began after the appointment of the Deputy-CRD in 2007. He was concerned about the inability of the risk function to systematically track the underlying changes in the economy. The tool took a year to develop and included indicators such as confidence indices (consumer, business, housing, etc.), swap rates, interbank interest rates, and macroeconomic data such as the Eurozone Consumer Price Index. The indicators were categorized as core or non-core. Core indicators were those that had been most highly correlated with past movements in the economy. The risk function hired its own economist to assist the Deputy-CRD in creating the EWS. She drew on input from the Group Economist’s team (who had been supplying information on the core indicators), but she explained that from the risk function’s point of view, more was required:

These [core indicators] are the ones which have proven in the past to be the most highly correlated with the economy. But we are aware that we can't predict what is going to be the main hit to the economy in the future … The economy changes structurally all the time and that's why we don't concentrate only on those which have been highly correlated with the economy in the past, but on the much broader range.

Initially, there were about 50 non-core indicators, but that number grew steadily to 160 as the risk function gathered information from the divisions about emerging risks and identified new indicators to represent them (see Figure 2 for an example of the indicators as presented in the EWS).

Senior risk officers visited various businesses regularly to review operations and identify emerging risks. The Deputy-CRD described this approach:

We spend most of our time going around the divisions saying, “Right, so what are the risks?” I don’t really care if I don’t see [the other senior risk officers] the rest of the week, as long as they’re over in the divisions. [They should] just get in [a division] on a Monday morning and wander around saying, “If I was the Board, what would I be worried about in this division?”

The risk function welcomed suggestions from the divisions for early warning indicators, which in turn furthered the acceptance of those indicators into routine monitoring.

The EWS helped convince the organization’s various functions that the parameters in the risk function’s scenarios were worth following. As the Deputy-CRD explained:

As part of the coming up with the scenarios … they’ll [divisions] say, “Well, why have you got this scenario? What's the basis for it?” And we’ll say, “Here are the early warning indicators” … it’s trying to ground it [the scenarios] rather than having very touchy-feely, oh, group risk are going off on one and being a bit negative … we think it’s [expected loss] too low for the following reasons. Why do we think that? Because of what we’re getting out of our early warning system.
In turn, the scenarios were a useful managerial tool for the business line managers. The Managing Director of the Commercial Banking business unit confirmed:

It’s [the scenario] also, I think, a very good leadership tool. Because … when I arrived, people tended to be very functionally-based. So the finance people sort of did the numbers, but did they understand the business drivers behind the numbers? The HR people sort of did the people bit, but did they know—did they understand the impacts that we would have—the decisions we would have to take in terms of people in different environments?

As the scenarios were not directly related to any particular area of practice (such as finance or HR), they were not framed according to the knowledge of any specific group in the business unit. They therefore helped the business unit manager to present a wider picture to all his or her managers. The scenarios could also support the business unit manager’s preferred method of managing risk. The Managing Director of Commercial Banking explained that, before the inclusion of scenarios in the planning process, stress testing focused primarily on predicting profits (i.e. the income statement). However, the Managing Director felt that that there was a “need to look a bit more at the balance sheet” and at the business unit’s “liquidity position” (i.e. the cash flow statement) as part of managing the business unit’s risk. This desired expansion in attention was achieved over time as the scenarios were gradually implemented into the planning process. Eighteen months after the initial introduction of the scenarios, the Managing Director concluded that his staff now understood the importance of predicting the impacts on the balance sheet and cash flow (as well as on profits).

In 2007 and 2008, when the risk function was still developing and implementing scenario analysis, the Annual Reports stated that the methodology was making “significant progress” (Annual Reports 2007 and 2008). However, the 2009 Annual Report mentioned that:

Stress testing and scenario analysis are fully embedded in the Group’s [Saxon Bank] risk management practice … [this] includes stress testing the medium-term plan to changes in economic assumptions. The output of this stress testing is used to determine investment decisions.

With the help of tools such as scenarios and the EWS, the risk function increased its influence on decision-making in the long-term and medium-term planning process. Scenarios and the EWS served as tools that business managers used to prepare forecasts of profits, balance sheets, and cash flows. At the same time, input from other managers was incorporated into the design of these tools, helping to build and reinforce trust.

Reframing key discussions
In 2007, deteriorating economic conditions drew attention to the tools the risk function had developed. The CRD decided to deploy the scenarios in the Group Executive Committee and directed the attention of top management to the relevance of the tool:

The biggest use of stress tests was actually not in the medium-term planning exercise, but at the Group Executive Committee, during 2007 … It became a real living tool there. I could go into the meeting and say, “Now we are in a one-in-seven-years downside scenario. What are we going to do?” If we are in a one-in-seven-years recession, a one-in-15-years recession cannot be too far away. So we had to be very action-oriented. There was so much uncertainty, we shifted between the downside scenarios back and forth. But it gave us a framework to think about what was happening.

Once top management started asking about the implications of the downside scenarios, the answers had to be gathered from the businesses – by the business managers themselves. The subsequent discussions took place in face-to-face meetings, called the Quarterly Business Reviews, in which the CEO and several Group Executive Committee members invited divisional heads to make presentations. They then questioned and challenged them about their business performance, the expected impact of deteriorating business conditions (expressed in scenarios), and their proposed responses. These intense and challenging meetings soon became known in the company folklore as “star chambers with the CEO.” Accordingly, divisional managers spent a lot of time preparing their quarterly presentations. The CEO would also raise the pressure on the divisions by sending a follow-up letter starting with the line that divisional heads came to dread: “I am sure you are as disappointed as I am…”

At this point, the risk function was able to step in to help divisional heads make their scenarios relevant to the key strategic decision-makers and to develop Plan B’s for discussion with the executive team. The CRD emphasized that this was indeed the hallmark of the new business-oriented risk function, which was now partnering with the businesses to help them do a better job at risk management:

The stress test [as part of the scenario-planning exercise] is just an academic exercise unless it says, if this happens, then that happens, and so on. Initially, when we poked management actions proposed by the businesses, we just found candy floss. People just went through the motions. We had to do a shed-load of communications to make them understand how to do this properly. We sent them little booklets (not emails that are easy to overlook!) to explain, we introduced annual Risk Prizes, not only for the risk community, but also for business people who contributed to risk management.

The rise of the Quarterly Risk Reviews, in turn prompted the risk function to redesign the CRR to incorporate the implications of the scenarios and early warning indicators that the businesses were now preparing and tracking in earnest. Up to this point, the CRR had been focused on the current status of each risk (red, amber, or green) and how this had changed over the preceding three months. Drawing on the results of the EWS, the risk function started to incorporate a forecast of the likely status of each risk type 12 months into the future.
Commenting in 2010, the Deputy-CRD highlighted that this additional information was seen as not only relevant, but also defendable:

The Early Warning System was a tool for us and we used it to very much inform and direct our horizon risk analyses and then our recommendations as to what the bank should be doing. So the final deliverable for the Executive Committee was our views and recommendations: “This is what we think.” If asked, “Why do you think that?” we could say, “Well, because we do a lot of analysis and we think the horizon risks are suggesting this.” The Early Warning System is very much underlying it [i.e., the forecasting of the future status of risks in the CRR].

Summary

At Saxon Bank, we were able to observe different ways in which a group of experts aimed to increase its influence. Toolmaking was central. The CRR, the scenarios, and the EWS formalized and conveyed the risk function’s expertise, which in turn came to frame important debates – from the performance evaluation of divisional heads to how to deal with the credit crisis. The risk function designed and promoted a series of reports that helped to position the expert views of the risk function at the focal point of strategic decision-making: the Group Executive Committee. Equally important was using the tools to create meaningful communication between the risk function and the business managers. While keeping control over the overall design of the tools, the risk function sought out the views and insights of the different “users” of risk management and incorporated these into the reports. The combination of these two processes – allowing others’ views into the reports while maintaining the position of introducing the report to the Group Executive Committee – was characteristic of the risk function’s conduct vis-à-vis other units.

Anglo Bank

Anglo Bank was founded in London in the middle of the 19th century and provided banking services to Asian and African colonial outposts in the days of the British Empire. In the 2000s, after a period of crisis, Anglo Bank gradually resurfaced as a leading international bank. It had two core businesses: corporate banking (focusing mainly on large loans to businesses), responsible for 58% of pre-tax profits and 72% of assets employed in 2007, and consumer banking, responsible for the remaining 42% of after-tax profits and 28% of assets employed.

In 2005, at the beginning of this field study, the risk function in Anglo Bank consisted of two groups of risk officers: a group that had originally been the credit-management function (whom we refer to as the “old guard”) and a team whose members specialized in
regulatory compliance, risk policies, and risk modeling (whom we refer to as the “new guard”). In 2003-2004, both teams had experienced a “clean sweep” as a senior risk management team was recruited from the outside. This reflected top management’s determination to strengthen risk management in the wake of significant growth opportunities in emerging markets, which posed new challenges in the corporate lending area, and in response to the requirements of the Basel II regulatory reform. Both groups were headed by risk officers who reported directly to the head of Anglo Bank’s risk function (the Group CRO, who was a member of the executive board) and had similar levels of seniority. However, the old guard represented the traditional ways of performing risk management, while the new guard advocated modern model-based risk management with a strong emphasis on risk quantification and risk-adjusted performance measurement. As we shall see below, these groups, despite their similar positions in the hierarchy, have come to occupy different positions of influence.

Conflicting views of risk management

Old guard risk managers had at least 25 years of experience in various banks in corporate and consumer lending, the bread-and-butter of traditional banking. Many had advanced through the ranks of the business lines and various levels of risk control. The top tier of these risk officers occupied key governance positions at Anglo Bank, heading centralized risk-control processes such as credit-risk management and country-risk management at the group center. Two of them sat on (and alternately chaired) the highest decision-making committee in the corporate lending business, the three-member Group Credit Committee. Another two of the old guard acted as senior risk officers in the business lines (corporate and consumer lending), with formal authority to oversee the execution of business strategies from a risk perspective.

These risk managers had developed considerable knowledge about the banking business and had developed their own personal heuristics for judging the risk of companies, which included a strong emphasis on the external environment. In their day-to-day operations, the old guard did not practice risk-silo management (Mikes, 2009) by confining themselves to a single risk type. Rather, their methodology focused primarily on the single loan as the unit of analysis, an approach that can be described as “holistic” or “cross-silo” risk management; they were reluctant to look at risks independently of each other. A prominent member of the old guard, the Head of Country Risk, described his holistic view of risk:
Frankly, when we look at deals from a country risk perspective, I have to tell you, we are thinking about credit risk. At the Group Credit Committee, I look at deals from a credit risk perspective, and I have to tell you, I’m certainly looking at country risk as well. Risk is chemistry, it is not particle physics. You can’t separate the risks.

In contrast, the new guard based their view of risk management on state-of-the-art risk models developed for individual risk categories. They considered Anglo Bank’s ways of managing risk “messy”; that is, lacking standards, formalization, and accountability. In the wake of the Basel II regulatory reform, accountability for risk management became a heightened concern in the industry and Anglo Bank’s Executive Board decided to recruit a senior risk officer as Group Head of Risk Reporting. This post, reporting directly to the Group’s CRO, came with the mandate to formalize and standardize the bank’s risk methodologies. The Group Head of Risk Reporting, having spent his previous career in another bank that was famed for its cutting-edge, model-based, heavily quantitative risk management, perceived Anglo Bank’s risk management practices as insufficient:

The general point, which I’m not sure how many people get, is that there is nothing in our accounts about the risk that the bank is running, unless you go through a separate risk analysis process.

This highlights two important points about the new guard’s view of risk management. First, the primary unit of analysis was the entire bank’s operation and, second, the new guard advocated the need for a specific process to aggregate and assess the bank’s risks. In particular, the new guard was concerned about the lack of a common “risk language” and a consequent inability to aggregate Anglo Bank’s risks at the group level. As the Group Head of Risk Reporting saw it:

Can [Group Risk] provide that [aggregate risk] information centrally? The process does not exist, the discussion framework is not there, and the language is not there. So we have to build up that language. We asked the businesses to provide the data, but they could not.

The infrastructure he saw lacking – tools that would have created the “common language” and the “discussion framework” – was something the old guard had not needed. The old guard focused on analyzing and then approving or rejecting the single loan for which they relied on their previous experience in the business lines and on frequent interaction with business managers. The new guard, in contrast, promoted an approach that divided the bank’s activities into specific risk categories (rather than loans and other particular investments and products), aggregated these risk categories, and produced bank-wide quantitative risk assessments. This difference in views became apparent in 2005-2006. In the next section, we describe how the differences were expressed in the development of risk practices.
Competing tools and risk practices

In 2006, the new guard created a governance document – also called the Risk Management Framework – in which they sought to standardize risk management across Anglo Bank. They divided risk management activities into different risk types and proposed that risk heads (such as the Head of Credit Risk and the Head of Country Risk) and other executives each take responsibility for a risk type through limit setting and monitoring.

The Group Head of Risk Reporting recruited a 12-member team to advocate the benefits of an independently set, standardized risk-management process across the organization. The team requested business unit heads to document all policies and risk standards applied in the management of their operations’ credit, market, and operational risks. The intention was to highlight common best practices and to cut out outdated ones. By imposing a new language for risk processes, they were preparing the ground for the next tool: economic capital, an aggregate measure of risk for each risk type.

The missing risk-analysis piece, according to this view, was a formal calculation of the risk content of the bank’s different business strategies. Such calculation required a business manager to understand the riskiness of his or her balance sheet – loan by loan, asset class by asset class, industry segment by industry segment – and then aggregate these risks across his or her entire asset portfolio. This goal, however, faced considerable challenges in Anglo Bank.

The Group Head of Risk Reporting diagnosed the situation in 2006 as follows:

[W]e will need to put more emphasis on the balance sheet in the planning process than we have done before. We are trying a dry-run [of the economic-capital calculations] this year. We have encountered great difficulty; it is a nightmare. We cannot do it. When you ask the businesses to forecast their income, there is a well-understood process there. When we ask them to forecast their balance sheet and their capital need, they cannot do it. Business people don’t know the risk profile of their business.

Forecasting income is a widely practiced process in banks. In contrast, forecasting economic capital was an emerging practice in the banking sector and had not been practiced at all in Anglo Bank.

The Group Head of Risk Reporting recruited a small team of analysts who also had experience with risk-capital allocation methodologies in other banks. They used the Risk Management Framework to determine which risk types they needed to allocate capital against and which risk types were best managed by a process. One of the new guard risk officers from the economic capital team described how earlier attempts at introducing the economic capital methodology in Anglo Bank had failed:

There’s been two fairly major initiatives in the past to get economic capital [the methodology]
embedded. But the problem is, I’m not sure how much buy-in it’s had from senior management … I don’t think [our Chief Executive] has ever been particularly keen. He’s had metrics that he was interested in, and economic profit wasn’t one of them … when he came in it got dropped from the senior management profitability packs. As soon as that happened, you can imagine the effect that had on things like data quality and how much attention people were paying to it. It was pretty obvious the management on top was not interested.

Despite the failure of earlier implementation attempts, the new guard positioned economic capital as a relevant measure in the 2007 regulatory environment; the implementation of Basel II in 2008 would make economic capital mandatory. However, the economic capital team lamented that regulatory compliance had to be the key “selling point” of the methodology, and that Anglo Bank resisted adopting a technique that they viewed as superior to existing planning and budgeting practices in any case. One of the team members summed up these concerns:

Unfortunately, we are relying on the regulatory crutch to push [economic capital] through and forward. What our true selling point ought to be—and it’s difficult to make that—is that it will improve the bank; it will add value to you as an organization because you will be able to better understand what your capital requirements are. You will be able to link your capital requirements to shareholder value; you can budget and plan much more comprehensively. At the moment, we budget from a P&L [profit and loss] perspective, but we’re saying that by doing it differently we decide to also incorporate a balance sheet view.

The new guard risk officers struggled to come to terms with the fact that it was not only Anglo Bank’s business managers who resisted the Risk Management Framework and the economic capital methodology, but also the old guard risk officers within their own risk management community.

According to the Risk Management Framework, credit risk and country risk were two distinct types of risk, each calling for a different set of responsibilities and expertise. This was antithetical to the old guard approach, voiced by the Head of Country Risk:

Through the Risk Management Framework, we have compartmentalized risk. There is market risk, there is operating risk, there is reputational risk and credit risk… The reality is: They all interact.

Other old guard risk officers also resisted the proliferation of documentation that accompanied the formalization of risk policies. The Chief Risk Officer of the corporate banking division highlighted that setting boundaries was the preferable way to manage risks:

There is little point in my mind in having a 4,500-page document setting out your risk policies because nobody’s ever going to read it. They can’t hold it in memory. What I’ve been trying to do is move towards what we won’t do from a risk [management] perspective, which allows people in the business to have the freedom to do certain things provided they don’t breach certain boundaries. If they breach certain boundaries, they’ve got to come back to me and ask. If you tell somebody what they can’t do, it’s a lot more succinct than telling somebody what they can do. The question is: How do you guide succinctly and leave plenty of room for common sense, but no room for stupidity? That’s what we’ve been trying to do. Have we got that right in document form? No.
While the new guard risk managers focused on defining guidelines that were then disseminated in documents across the organization, the old guard business line CROs preferred to communicate directly with the business managers. They worked closely with their respective businesses, and preferred hands-on involvement, rather than control by guidelines. This caused tensions between them and their new guard colleagues at headquarters who advocated the idea of independent risk control from a distance organised along the reporting lines specified in the Risk Management Framework. Sitting in his office in Singapore, the old guard chief risk officer of the corporate bank explained:

Group Risk’s point of view of my position is that I am not independent from the business … My colleagues [in London] anticipate that if I am doing my job properly, everybody should hate me here. However from my perspective, if I develop a relationship with the business such that I can help them see that they should not bring me a piece of business for a decision because it is not right, that is a far better cultural way of doing risk management. Because [salespeople] will know where the boundaries are and they won’t bring me business that doesn’t get approved. As long as you are supportive of good business, and explain why you turn business down, you should never get any knives. What we try to do is a partnership.

Creating and maintaining a relationship that gave freedom of action to the business lines was important for the old guard. In turn, business managers were obliged to interact directly with the risk manager as situations evolved. Under this arrangement, there was little room for such lengthy documentation as the Risk Management Framework. In order to influence business managers, the old guard developed and mobilized their in-depth knowledge of the business manager’s worldviews. The CRO of the corporate bank explained:

[Y]ou need to know the business generators well enough to know when they are likely not to tell you the truth … The issue is to understand how they operate within their values. So not only do you understand where they are likely to over-egg it because the rewards are there, but also it will tell you how to approach them when you want to slow them down.

The impact of the old guard risk officers at Anglo was most visible in discretionary strategic discussions about large-scale lending decisions, where senior risk officers found it necessary to strike a balance between partnering the business generators and retaining an ability to say no if they had second thoughts about a deal.

The old guard distanced itself from the economic capital methodology promoted by their new guard colleagues by stating that the alleged technical superiority of the economic capital approach was irrelevant because, as one senior risk officer put it, “the businesses are coming back and saying, ‘Guys, wake up! That’s not the way we run the bank.’” According to the old guard, the core test was whether or not economic capital was helpful for running the business, irrespective of its possible technical advantages.

Summary
The gradual accumulation of knowledge about how business managers operated was one of the hallmarks of Anglo Bank’s old guard. This characteristic, along with their dense network of interpersonal connections, led to an interactive risk-control methodology where risk management expertise was embedded in the risk officers themselves. The old guard refrained from developing formal tools to convey their expertise to others, preferring to frame the strategic decision space using their decades of experience and personal interactions with business managers. As a result, the expertise of the old guard did not spread beyond the experts themselves. Once an old guard risk manager leaves or retires, decades’ worth of experience and, in effect, that manager’s risk management methodology are lost.

Anglo Bank’s new guard filled a role that was perceived as meeting a regulatory compliance requirement, but not relevant to “running the business”. Their new tools (economic capital and the Risk Management Framework) did not gain traction with business managers or with the old guard. Although the new guard did have the resources to develop such an infrastructure, the striking differences in the two groups’ worldviews hampered a potential collaboration combining the old guard’s risk expertise and the new guard’s toolmaking abilities.

Discussion and conclusion

Having presented empirical evidence concerning the changes faced by the risk functions in two large UK banks and the different fates of their risk management experts, we now compare and contrast the two cases. We first outline three factors that we identify as contributing to the success or failure of the tools and practices that the two risk functions employed.

Toolmaking and influencing

First, there is a significant difference in the willingness of the risk functions at Saxon Bank and Anglo Bank to allow their tools to change in the process of their deployment. Anglo Bank’s new guard risk managers were reluctant to use feedback and data coming from the business lines in developing their tools, viewing it as deficient (for example, not accurate enough). They relied on an external source of authority (the Basel II directives) to legitimize their methodology, and employed a set of pre-defined – rather than internally-negotiated – procedures. In contrast, Saxon Bank’s risk function treated feedback and information from
business line managers as valuable “raw material” to be incorporated into their tools, absorbing management insights into the CRR and the scenarios, and adding new indicators suggested by management to the EWS. By developing tools that readily incorporated information and knowledge from other managers, these risk experts aimed to make their own tools more relevant to the business lines, to facilitate knowledge-sharing by building a common ground (Bechky, 2003), and, ultimately, to increase their own influence. As one small component of the general influencing process of “configuring the user” (Woolgar, 2004), Saxon Bank’s risk function managed its relations with potential users by making them think that important ideas for designing the risk-management tools were theirs. This explains why Saxon Bank’s risk function succeeded in linking its scenarios to the already influential medium-term planning process, and in gaining a foothold in a practice that had been receiving managers’ attention across the organization. In comparison, Anglo Bank’s new guard failed to attach its proposed measure of economic capital to existing organizational reporting practices. In a crucial sense, this was the result of their lack of willingness to “open up” their tools to potential inputs from other managers; hence the influence of those tools remained limited.

Second, comparing the two cases enriches our understanding of the role of experts’ credibility in organizational decision-making. In Saxon Bank, credibility was based on tools and thus “good” tools – communicative, relevant, and helpful to managers – made the risk function seem more trustworthy, which helped to increase its influence. The “experience-based” credibility of Anglo Bank’s old guard, however, was attributed to individuals rather than to the function as a whole. Because their expertise was never embodied in highly communicable tools, it could not spread beyond them or outlast them, limiting their overall influence. Members of the new guard lacked the experience of the old guard and their tools never gained senior management’s support; accordingly, these risk experts were unable to increase neither their credibility nor their influence.

Third, the two banks’ risk functions differ in the importance they assigned to the communicability of their tools in relation to those outside the risk function. Saxon Bank’s risk function tried continuously to shorten their reports, to simplify the way data and measures were presented, and – overall – to make their message clear to business lines and senior executives. We do not see this in Anglo Bank. It has to be noted, though, that the area of comparison is partial, because Anglo Bank’s new guard risk managers had little opportunity to present their assessments and predictions to top-level managers and others in the organization, as Saxon Bank’s risk managers did. It may be, then, that they did not develop communicative tools in part because they had little incentive to do so.
Our analysis of risk managers at Saxon Bank and Anglo Bank highlights the importance of toolmaking to generating knowledge and, more broadly, to exercising influence in organizations. The toolmaking perspective complements the literature on influencing as issue-selling, sense-giving, and framing and the literature that describes influencing via knowledge-sharing processes. In these organizationally grounded papers the spotlight falls on the “intervening” social variables and conditions of disseminating expertise. Our emphasis is on the construction of tools as a socio-technical process (Wajcman, 2010). Tools do not possess a transcendental, unchanging character, but are instead constituted and reconstituted through contingent processes at play in their genesis, take up, interpretation, and use (Woolgar, 2004). That is, exercising expert influence fundamentally involves creating and refining tools embodying not only the experts’ expertise, but also the expertise of the prospective users. In fact, we see that the more the process of toolmaking becomes a “co-creation” with intended users, the more influence the toolmaker can garner.

Transformations in the influence of experts

We now outline a more general framework to describe how experts can become influential in organizations and how their influence can change over time. In doing so, we draw on our case analyses of the two separate organizations that are similar in important respects, but also note that they have different histories, cultures, and operating models.

Building on the conceptual framework presented earlier, we conceptualize transformations in experts’ influence along two interrelated dimensions. Movement along one axis involves incorporating the experts’ knowledge into highly communicable tools. Movement on the other axis involves ensuring that the experts maintain significant personal involvement in producing analysis and interpretation in important decision-making forums. We see these two dimensions, and the links between them, as the key aspects of our framework. We then use these two dimensions to outline four positions that experts can occupy – compliance experts, technical champions, trusted advisors, and engaged toolmakers – by moving along these two axes to differing degrees. Below, we use our cases to elaborate these four positions and to highlight the dynamic nature of the processes we identified (see Figure 3). Our framework suggests that each of the positions of influence represents a snapshot in a continuous process of change rather than a goal that was achieved. As such, we do not posit that moving to the position of engaged toolmaker is a universally accepted mark
of success. The arrows in the figure describe the movements of two of the groups of experts – Saxon Bank’s risk function and Anglo Bank’s new guard – from one position to another. Anglo’s old guard, whose position in the organization did not change significantly, is indicated by a stationary position.

*Compliance experts* fulfill an important organizational role, such as meeting regulatory requirements, but do not significantly shape the agendas or actions of other organizational actors. The tools of compliance experts tend to be directed towards their own work and their knowledge is not easily communicable outside their function. In this category, we can see Anglo Bank’s new guard, whose tools served an important organizational function (compliance with regulatory requirements), but whose influence on business activity and strategic decisions was very limited. In particular, their tools did not communicate their knowledge in ways that were understood and accepted by the business lines and top managers, who saw a gap between these tools and the way they ran the bank.

*Technical champions* make their tools so relevant to the tasks and easily understandable that they themselves are no longer needed to make sense of the information generated by those tools. Here, the experts do not maintain their role as “critical points of passage” in the use of their knowledge; other organizational actors can use it on their own. By way of analogy, it takes an expert watchmaker to make a watch, but no one needs to consult a watchmaker to tell the time. The practices of Saxon Bank’s risk managers revealed that a delicate balance is required if an expert function hopes to disseminate decision-relevant expertise without losing participation in decision-making, that is, they needed to demonstrate not only that their tools were relevant, but that they themselves (particularly senior risk managers such as the CRD and the Deputy-CRD) were needed to translate that knowledge into formats that management could digest and turn into actionable items. Our analysis indicates that, through this careful balancing, the risk function at Saxon Bank was able to move beyond the position of technical champions.

*Trusted advisors* have knowledge that is considered important by other organizational actors because of its high level of analysis and interpretation, but their influence is limited because it is neither applicable nor replicable without their personal involvement. We have seen how member of the old guar of Anglo Bank were greatly valued for their intimate knowledge of the business, but their influence was limited because it was tied to their direct
involvement; they had not developed tools that, apart from embodying and portraying their expertise, could also be disseminated throughout the bank in their absence. Such trusted advisors may be influential for a time, but truly deep influence accrues to experts who create tools that outlast them.

Engaged toolmakers have developed tools to communicate their knowledge to other organizational actors, but in such a way that they themselves remain necessary passage points for fully understanding, interpreting, and acting upon the knowledge generated by those tools. At Saxon Bank, for example, the CRR, the EWS, and the scenario analyses were – by the end of our research period – becoming indispensable tools, used by others in important decision-making forums. Critically, tools communicated the experts’ knowledge, but the experts themselves were still needed to interpret that knowledge to the business lines and in top management committees.

Our framework highlights the dual movements – along the axes of developing communicable tools and personal involvement – needed for experts to become and remain influential. That is, becoming an engaged toolmaker requires both incorporating knowledge into tools and concurrently ensuring personal involvement in producing analysis and interpretation in important organizational decision-making forums. Our analysis suggests that these dual movements may be self-reinforcing. That is, creating highly communicable tools can enhance the experts’ credibility (and trust in the experts) and thus promote their involvement in decision-making, which can, in turn, further increase the visibility, acceptance, and communicability of the tools. This self-reinforcing process is particularly evident at Saxon Bank, where the CRD’s role in the Group Executive Committee helped her function develop and improve its tools (such as the CRR and the scenarios). Over time, the enhanced communicability of the tools provided the CRD and the other senior risk managers with the credibility and knowledge to advance the risk function’s influence through their personal involvement at the highest-level decision-making forums, such as the Quarterly Business Reviews.

In contrast, the lack of a connection between these dual movements helps to explain how experts become trusted advisors and technical champions. Trusted advisors, such as the old guard at Anglo Bank, have extensive personal involvement in producing analysis and interpretation, but this is not linked to a parallel process of incorporating their knowledge into tools that can operate in their absence. Technical champions, in contrast, have embedded their knowledge in highly communicable tools, but failed to connect their tools to their own
involvement; that is, other organizational actors can operate the tools without them.

Our theoretical framework contrasts with much of the literature on experts, which can be overly descriptive – outlining how the roles of experts have changed over time – or strictly normative – advocating an increased organizational role for a particular group, such as accountants or HR specialists (e.g., Baldvinsdottir et al., 2009; Smith & Davies, 2009; Webster et al., 2005; Jamrog & Overhold, 2004). Our four-part typology of compliance experts, technical champions, trusted advisors, and engaged toolmakers provides a conceptual framework for further research. For example, what institutional and organizational contingencies allow the differential positions of expert influence to develop? What implication does the differential influence of risk managers have for the performance of their organizations? Our analysis has implications for these questions, but more research in the internal and external dynamics of influence-seeking behaviors of functional experts is needed.

Our framework indicates that experts may gain influence not by arriving at the organization with a predefined methodology, but rather by initiating and maintaining meaningful relationships with other managers. Information and knowledge flowing in both directions helps the experts’ toolmaking efforts and strengthens trust and support amongst the experts and other organizational actors. Our analysis also indicates that the greatest increases in experts’ influence are likely to come about when the processes of toolmaking and personal involvement are interconnected and self-reinforcing.

Our theoretical framework and findings focus on the role of toolmaking as experts gain, fail to gain, or lose influence, and seeks to complement other explanatory factors. For example, consistent with studies of changes in corporate control (Fligstein, 1990; Zorn, 2004), we noted in our introduction that the heads of our two risk functions had obtained high-ranking positions as risk management became more important in the corporate world. The settings help us eliminate some alternative structural explanations that the extant risk management literature offers to explain the differential influence of risk management functions; in particular, the presence and formal authority of the chief risk officer and espoused top management support (Beasley et al., 2008). Given that both banks had CROs (and senior risk officers) with espoused top management support and access to the executive board (the most important decision-making forum at each bank), the differential positions of influence they came to occupy requires an explanation that goes beyond structural arrangements. We have seen that the risk functions (particularly at Saxon Bank) employed a variety of influencing tactics as they interacted with other organizational actors (Gioia & Chittipeddi, 1991; Maitlis, 2005; Johnson et al., 2007). Building on research emphasizing the
role of tools (Carlile, 2002, 2004; Kaplan, 2011; Bechky, 2003), this study showed that
toolmaking – the process by which experts create, articulate and shape tools that embody their
discipline – play a vital role in explaining how risk experts “configure” users and by doing so,
become influential.
Figure 1
Different positions of influence for risk managers in organizations

<table>
<thead>
<tr>
<th>Personal involvement in producing analysis and interpretation in important decision-making forums</th>
<th>Trusted advisor</th>
<th>Engaged toolmaker</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Compliance expert</td>
<td>Technical champion</td>
</tr>
</tbody>
</table>

Communicability of tools

Figure 2: Early Warning Indicators at Saxon Bank

| Indicator                  | 08 | 07 | 06 | 05 | 04 | 03 | 02 | 01 | 00 | 99 | 98 | 97 | 96 | 95 | 94 | 93 | 92 | 91 | 90 | 89 | 88 |
|---------------------------|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|
| GDP                       |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| Real Interest Rate        |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| Mortgage approvals        |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| RICS Survey               |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| E&Y Profit Warnings       |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| Services PMI              |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| New Car Registrations     |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| Consumer Confidence       |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| Credit Spreads            |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
Figure 3
Changes in the influence of risk managers in our case settings

Personal involvement in producing analysis and interpretation in important decision-making forums

Communicability of tools

Saxon Bank’s risk function
Anglo Bank’s old guard
Anglo Bank’s new guard

Trusted advisor
Engaged toolmaker
Compliance expert
Technical champion
References


University Press.


Appendix 1: List of interviewees and interviews

*Saxon Bank—Summary of interviewees*

<table>
<thead>
<tr>
<th>Title</th>
<th>Number of interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Risk Director</td>
<td>5</td>
</tr>
<tr>
<td>Deputy-Chief Risk Officer (also Chief Credit Officer)</td>
<td>10</td>
</tr>
<tr>
<td>Risk Economist</td>
<td>1</td>
</tr>
<tr>
<td>Risk Modeling &amp; Aggregation Director</td>
<td>4</td>
</tr>
<tr>
<td>Risk Architecture Director</td>
<td>2</td>
</tr>
<tr>
<td>Executive Assistant to Chief Risk Officer</td>
<td>1</td>
</tr>
<tr>
<td>Divisional Risk Director, Wholesale Banking</td>
<td>1</td>
</tr>
<tr>
<td>Managing Director, Commercial Banking Division</td>
<td>1</td>
</tr>
<tr>
<td>Managing Director, Consumer Banking Division</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>26</strong></td>
</tr>
</tbody>
</table>

*Saxon Bank—List of interviews by date*

- Risk Modeling & Aggregation Director (2006-08-18)
- Chief Risk Director (2006-11-15)
- Chief Risk Director (2006-12-07)
- Risk Modeling & Aggregation Director (2007-03-27)
- Chief Risk Director and Risk Modeling & Aggregation Director (2007-03-28)
- Risk Architecture Director (2007-08-16)
- Risk Architecture Director (2007-10-02)
- Deputy-Chief Risk Officer (2007-10-08)
- Deputy-Chief Risk Officer (2007-11-22)
- Deputy-Chief Risk Officer (2008-01-07)
- Risk Economist (2008-02-29)
- Executive Assistant to Chief Risk Officer (2008-04-01)
- Deputy-Chief Risk Officer (2009-03-04)
- Risk Modeling & Aggregation Director (2009-04-14)
- Deputy-Chief Risk Officer (2009-05-11)
- Deputy-Chief Risk Officer (2010-03-31)
- Divisional Risk Director, Wholesale Banking (2010-04-30)
- Managing Director, Commercial Banking Division (2010-04-30)
- Managing Director, Consumer Banking Division (2010-04-30)
- Deputy-Chief Risk Officer (2010-04-30)
- Deputy-Chief Risk Officer (2010-06-16)
- Deputy-Chief Risk Officer (2010-09-27)
Deputy-Chief Risk Officer (2010-11-26)
Chief Risk Director (2010-11-26)
Chief Risk Director (2011-01-19)

Anglo Bank—Summary of interviewees

<table>
<thead>
<tr>
<th>Title</th>
<th>Number of interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group Risk Director</td>
<td>1</td>
</tr>
<tr>
<td>Group Director of Risk Reporting</td>
<td>3</td>
</tr>
<tr>
<td>Group Head, Basel II Implementation</td>
<td>2</td>
</tr>
<tr>
<td>Chief Executive, UK Division</td>
<td>1</td>
</tr>
<tr>
<td>Chief Operating Officer, Corporate Bank</td>
<td>1</td>
</tr>
<tr>
<td>Relationship Manager, Corporate Bank</td>
<td>1</td>
</tr>
<tr>
<td>Head of Country Risk / Chair of Group Credit Committee</td>
<td>1</td>
</tr>
<tr>
<td>Head of Market Risk</td>
<td>1</td>
</tr>
<tr>
<td>Head of Operational Risk</td>
<td>1</td>
</tr>
<tr>
<td>Chief Risk Officer, Corporate Bank</td>
<td>10</td>
</tr>
<tr>
<td>Chief Risk Officer, Consumer Bank</td>
<td>1</td>
</tr>
<tr>
<td>Chief Operating Officer, Group Risk</td>
<td>1</td>
</tr>
<tr>
<td>Senior Risk Officer, Economic Capital Project</td>
<td>2</td>
</tr>
<tr>
<td>Senior Risk Officer, Risk Management Framework</td>
<td>1</td>
</tr>
<tr>
<td>Senior Risk Officer, Risk Reporting</td>
<td>1</td>
</tr>
<tr>
<td>Risk Officer 1, Economic Capital Project</td>
<td>1</td>
</tr>
<tr>
<td>Risk Officer 2, Economic Capital Project</td>
<td>1</td>
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<tr>
<td>Risk Officer, Risk Reporting</td>
<td>1</td>
</tr>
<tr>
<td>Risk Officer, Country Risk</td>
<td>2</td>
</tr>
<tr>
<td>Risk analysts, Corporate Bank</td>
<td>2</td>
</tr>
</tbody>
</table>

Anglo Bank—List of interviews by date
Group Director of Risk Reporting (2005-11-04)
Risk Officer 1, Economic Capital Project (2006-07-04)
Senior Risk Officer, Risk Reporting (2006-07-19)
Risk Officer 2, Economic Capital Project (2006-08-04)
Senior Risk Officer, Risk Management Framework (2006-08-04)
Risk Officer, Risk Reporting (2006-08-10)
Senior Risk Officer, Economic Capital Project (2006-08-10)
Senior Risk Officer, Economic Capital Project (2006-08-14)
Chief Operating Officer, Group Risk (2006-08-16)
Head of Country Risk (2006-08-17)
Group Director of Risk Reporting (2006-08-22)
Group Head, Basel II Implementation (2006-08-23)
Relationship Manager, Corporate Bank (2006-08-23)
Risk Officer, Country Risk (2006-08-23)
Head of Operational Risk (2006-08-31)
Chief Executive, UK Division (2006-09-01)
Group Risk Director (2006-09-01)
Head of Market Risk (2006-09-01)
Chief Risk Officer, Consumer Bank (2006-09-05)
Chief Operating Officer, Corporate Bank (2006-09-06)
Chief Risk Officer, Corporate Bank (2006-09-08)
Chief Risk Officer, Corporate Bank (2006-09-15)
Chief Risk Officer, Corporate Bank (2007-06-07)
Chief Risk Officer, Corporate Bank (2007-11-22)
Group Head, Basel II Implementation (2008-05-21)
Chief Risk Officer, Corporate Bank (2008-05-30)
Chief Risk Officer, Corporate Bank (2008-09-30)
Group Director of Risk Reporting (2008-11-17)
Risk Officer, Country Risk (2008-12-03)
Risk analyst 1, Corporate Bank (2008-12-03)
Risk analyst 2, Corporate Bank (2008-12-03)
Chief Risk Officer, Corporate Bank (2009-01-30)
Chief Risk Officer, Corporate Bank (2009-03-06)
Chief Risk Officer, Corporate Bank (2009-06-22)