

Processes and Practices of Governing in Colleges of Further Education in the UK

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Risk management and organisational culture: constructing 'tone at the top'

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Establishing a risk-aware culture

A number of high-profile financial scandals has led to an increased emphasis on internal controls and the role of 'tone at the top' as a 'crucial driver of a risk aware culture' (Braumann et al 2020, p. 3). As a result of this, tone at the top has thus become one of the principal normative assumptions underpinning strategic risk management in organisations, and a key responsibility of the board. However, tone at the top is an ill-defined and poorly understood construct and little is known about how it is accomplished by boards. Here we draw on empirical data from observations of governing boards of eight colleges of further education across the UK to examine ways in which tone at the top is produced and enacted by board and management through their risk management practices. This contributes to an understanding of the ways in which the board sets the culture of the college, both through the communication of expectations and, crucially, through modelling 'good governance'.

While tone at the top remains a rather nebulous term, here we conceptualise it as 'the board's vision for the corporation', which should include its 'commitment to risk oversight, ethics and avoiding compliance failures' (Lipton et al., 2019 p.796).

The calculation of risk

In its most common and basic manifestation the Risk Register presents each identified risk as a calculation based on a 5x5 matrix of severity of impact versus likelihood of the event. This gives rise to a risk score which is then colour coded, Red (high risk, 15-25), Amber (medium risk, 6-12), Green (low risk, 1-5). This initial calculation produces the 'inherent risk' which, following the application of suitable 'treatment', can be mitigated, leaving a residual, lower, risk. A version of this system was followed in six of our eight participating colleges. In the remaining two, a risk register was produced but identified risks were not colour coded or given a numerical value. In colleges adopting the RAG approach, the Risk Register was a very colourful affair and a powerful and persuasive means of visualising risk. As one Chair told us:

[We] identify and capture and quantify the risks, again I see it as a bit like governance, it's a very, very important job but if you keep it simple it's easy done and it works very well, it's nothing to be afraid of ... It's robust, it's comprehensive and it works and it's also simple. If you don't have that kind of discipline and those tools in place, yeah, risk is a nightmare. But the first thing you do is just tidy up the risk and get it all captured in front of you. (Chair)

Tone at the top: Commitment to risk oversight, ethics, and compliance

Here we present three episodes which illustrate the performance of tone at the top in board meetings of our participant colleges. The first examines the practices of risk management and the performance of competence by board and management in risk oversight of the organisation; the second concerns the ethical dimension which emerges through the social construction of risk; and the third demonstrates the Board's compliance with external demands for 'good governance'.

1. Commitment to risk oversight: Governing as rational endeavour

The Risk Officer – a member of senior management (though not the executive) – outlined the two red-rated risks (Failure of business continuity and Failure of IT systems security, respectively, each with a score of 15), accounted for these, and set out the mitigation strategies in each case. Notable was his calm and measured delivery which succeeded in conveying reassurance and ‘comfort’ to the board (Pentland, 1983). When he had finished, the Chair and another board member (BM) questioned him about these risks.

BM: Is it ever possible with the failure of IT security to get out of the red? I know you can put in all the best laid plans...but there are too many unknown variables out there that can affect your IT security...

RO: I think the high risk score in a sense should be some kind of reassurance that we recognise the degree of risk involved. If you had a green attached to IT cyber security I'd be extremely suspicious they weren't fully aware of the risks involved. So in a sense having a high score is no bad thing.

Chair: Green would smack of complacency

In understanding the performativity of risk management we were drawn to Erving Goffman's ‘impression management’ (1959). Impression management concerns the presentation of self to other, but it may also involve the presentation of an object, idea or event. And, as Goffman makes clear, impression management may be exhibited by teams ‘for an audience that is not present in the flesh to witness the show’ (Goffman 1959, p. 87).

In this episode, ‘tone at the top’ is performed as the enactment by board and management of competence in relation to oversight as part of a culture of risk awareness. By the sound application of measures, the threat can be reduced; so, through the practices of risk management, governance is given substance as rational endeavour. The discussion which followed the Risk Officer's presentation allowed board members and management to position themselves as knowledgeable in relation to risk management, thereby producing a collective performance of effective oversight for the ‘unseen audience’. Interestingly, in this case, failure to reduce the risk score in the two stubbornly red-rated risks was collectively explained by overturning the usual meaning accorded green as safety, green becoming instead a measure of complacency. In this way, board and management were able to maintain confidence in the risk management procedures, and to perform risk management competently, despite what could be seen as a failure of risk oversight.

2. Commitment to ethics: ‘People’ as objects of and at risk

During the period of observation, one of our participant colleges was engaged in re-organizing its risk management procedures, allocating areas of oversight to committees, and reclassifying risks. The Audit and Risk Committee (ARC) submitted proposals to the Board for rearranging the strategic Risk Register, splitting ‘Organisational’ risks into two new areas: ‘People’, and ‘Infrastructure’. The ambivalence towards ‘people’ as risk objects is captured in the professional management literature, driven by the spectre of ‘rogue traders’. The introduction of the risk category ‘People’ might therefore be expected to contribute to tone at the top through the logic of suspicion, justifying the need for surveillance. To some extent this was borne out. On one occasion we observed an ARC meeting in which staff were represented as fraud risks. While this

might suggest that the risk category 'People' serves to construct staff as objects *of* risk to the organisation, this logic was subverted during a main board meeting by a board member who used the discussion around reorganisation of the Risk Register to position staff as being *at* risk from the organisation. This allowed the board to perform stewardship and an ethic of care in relation to staff. Hence, tone at the top was expressed as a moral endeavour used to position the board and hence to construct the organisation as 'the kind it is'.

Following this intervention, in the next iteration of the Risk Register the original (challenged) risk remained unchanged but a new risk was added under 'People' which constructed staff and students as objects at risk from the college. The new risk was given a score of $3 \times 4 = 12$ (amber), which, after suitable treatment, was reduced to $2 \times 3 = 6$ (green) and became the responsibility of the Human Resources and Development Committee. In this way, through the auspices of the Risk Register, the issue underwent a process of translation, becoming objectified and hence calculable. Having begun as an ethical concern for staff and student wellbeing, it becomes a risk to the organisation, since failure may result in reputational or financial harm.

As is demonstrated here, a risk becomes a fact once it is inscribed on the Risk Register. This inscription functions to create the relational element connecting the object to a putative harm. Clearly, this is not a neutral act, as Hilgartner (1992, p. 47) says, 'changes in the definition of risk objects can redistribute responsibility for risks, change the locus of decision-making, and determine who has the right – and who has the obligation – to "do something" about hazards'. In this case, the re-organisation of risk to include the category People created an 'obligation' to ensure a safe and healthy environment for students and staff as a moral duty going beyond legal compliance. In a reciprocal movement, however, inscription on the Risk Register also constructs the board as an object of risk to the organisation which necessitates self-surveillance as a condition of ethical governing.

3. Commitment to compliance: accountability and the enactment of 'Good' governance

Here we continue the theme of self-surveillance apparent in episode 2. Here, we focus principally on the technology of risk management and how this constructs 'good governance' through compliance with external norms.

One of our participating colleges in enacting compliance had RAG-rated their respective code of good governance. Adoption of this Code is 'voluntary', but college boards must follow either this code or the UK Corporate Governance Code (FRS, 2018) in order to meet funding requirements. As is common practice with codes of governance, boards must comply with the code or explain why they have not done so. The Code sets out areas of governance responsibilities as a series of numbered items with which the board either 'must' or 'should' comply. 'Musts' are legal requirements, 'shoulds' show evidence of 'enhanced governance practice'. At this college, each of the principal governance responsibilities had been RAG-rated and the paper was presented to the board for discussion and approval. RAG-rating was a matter of assigning a colour and did not involve numerical calculation. Of the items RAG-rated none was red and 15 were rated amber. The rest were green.

Two of the amber-rated items gave rise to some discussion. The first of these was 'The board must foster exceptional teaching and learning':

Chair: why did you pick that as amber?

Clerk: because you shouldn't be complacent
 Vice-Chair: I think that would be green for me because it's about the process we follow not the outcomes.

As a result of this, this risk was reduced from amber to green. The other amber-rated item discussed was also reduced from amber to green. Good (in contrast to effective) governance can be defined as compliance with a code of governing. However, in this episode, the board goes beyond mere compliance in effect performing 'enhanced governance practice' through the scrutiny of amber ratings.

In this case, as in episode 1, risk management procedures concern impression management. This episode demonstrates how the assumptions underpinning risk management have been translated to a different context such that the Board constructs itself as an object of risk in respect of good governance. This further demonstrates how risk management has become deeply embedded so that tone at the top is performed through RAG-rating. Indeed, RAG-rating has become so pervasive that in our study the verb 'to RAG' was used on several occasions by board members (as in 'could we get that RAG-ged, please?'). RAG-rating as technology reduces the complex task of apportioning risk to a manageable level. In return, technologies influence the way boards perform risk management so that RAG-rating and ethical tone become mutually implicated.

Concluding remarks

The episodes illustrate the different facets of ethical tone along the three dimensions: commitment to risk oversight, ethics, and compliance. From this it is apparent that tone at the top is not invoked through a specific set of roles and responsibilities but is a complex process mobilised through the practices of risk management.

Moreover, risk management does not just describe an existing world but helps bring that world into being. Risk management is performative and practices of risk management create a world full of risk. The role of the board is to mitigate this. However, the board cannot escape being implicated in this process. Indeed, in the infinity mirror that is risk management, the risk of complacency becomes an ever-present threat and the failure to achieve the correct tone at the top becomes a risk in its own right.

Points for consideration

- Risk management is part of a collective performance of governing as rational endeavour. Even when it fails to reduce risk arguments can be marshalled that maintain this veneer of confidence. What are the implications of this for considering whether risk management 'works'?
- The social construction of risk is an ethical judgement: how risk is carved up is never neutral. What are the implications of this for boards and the committee structure?
- Tone at the top is enacted through compliance with external requirements and accountability. To what extent does this make the board itself an object of risk

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