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From theoretical framing to empirical testing in risk governance research: Moving the field forward

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Structured Abstract

Purpose: This guest editorial introduces the special issue on theoretically framing and empirically testing risk governance. It provides an overview of the papers included in this issue and sketches important avenues for further research on risk governance.

Design/methodology/approach: I first discuss the relevance of the individual papers included in this special issue and then draw on selected theoretical frameworks and empirical research to develop questions for further research.

Findings: The papers included in this special issue show that risk governance may play a decisive role in various contexts including organizational turnarounds and effective board monitoring. While several conceptualizations of risk governance have been put forward in the past few years, empirical issues remain to be addressed to further our understanding of risk governance.

Research limitations/implications: Many issues of risk governance have not yet attracted sufficient scholarly interest. In particular, alternative theoretical framing and empirical works on risk governance are warranted.

Originality/value: This guest editorial and the entire special issue are among the first pieces of research that focus on framing and testing risk governance.

Keywords: Risk governance, risk management, framing, testing, empirics

Article type: Viewpoint

1. Background of the special issue

The recent financial crisis showed that traditional approaches to risk management could not effectively deal with the significant risks that threatened the existence of many financial institutions and other businesses. A more holistic and strategic alternative to risk management may be risk governance (Stein and Wiedemann, 2016). Risk governance at the organizational level may bridge the gap between the "institutionally oriented field of corporate governance and the methodologically oriented area of risk management" (Baule and Fandel, 2016, p. 809). While the origins of risk governance can be found in the socio-political area (e.g., Renn, 2008; van Asselt and Renn, 2011), its economic application to corporations has recently received increased attention by researchers. However, such research remains in an early stage. In particular, while some important theoretical framing of risk governance has been performed (e.g., Cohen, 2015; Stein and Wiedemann, 2016), further conceptual work is needed and empirical research on risk governance is scant so far (but see some exceptions such as Aebi *et al.* ,2012; Agarwal and Kallapur, 2018; Lundqvist, 2015; Mongiardino and Plath, 2010; Stein and Wiedemann, 2018). Owing to this dearth of the literature, the present special issue of the *Management Research Review* aims to shed more light on framing and empirically examining risk governance.

This special issue originates from the 6th Annual Conference on Risk Governance held in October 2018 at the University of Siegen, Germany and the risk governance research group at this school. Earlier editions of this conference focused on more general applications of risk governance in practice and led to a number of special issues (see the guest editorials by Baule and Fandel, 2016; Hiebl *et al*., 2018a, 2018b). The 2018 edition of the conference focused on the theme of this special issue and several papers presented there have been selected for publication herein.

In the next section, I briefly introduce these papers. I then chart some avenues for future research on framing and empirically examining risk governance. In this guest editorial's final section, I present my conclusions and acknowledgements.

2. Papers included in this special issue

After standard peer-review procedures over several rounds, four papers were selected for publication in this special issue. Two of these offer a holistic view of framing risk governance (Gotteiner *et al*., 2019; Stein *et al*., 2019), while the other two tackle specific issues in designing risk governance (Gleißner, 2019; Handschumacher *et al*., 2019). The four papers are, however, united in underpinning the relevance of risk governance choices and carry important implications for both research and practice.

The paper by Stein *et al*. (2019) aims to raise awareness of the relevance of framing in risk management and risk governance. Based on a five-constituent framing approach, the authors conceptualize how firms' approaches to handling risks differ depending on the frames they apply and whether they lean toward risk management or risk governance. The paper therefore clarifies the distinction between risk management framing and risk governance framing, which is valuable for reducing ambiguity—both in research and in practice—around these two principal approaches to steering risks.

The second conceptual paper included in this special is Gleißner's (2019) approach to integrating enterprise risk management (ERM) with ideas from value-based management. The paper is motivated by the paradox that existing attempts to link ERM and value-based management are based on the assumption of *perfect* capital markets, which however is thwarted by numerous empirical findings in the literature indicating that the application of ERM is value-enhancing (e.g., Grace *et al*., 2015; McShane *et al*., 2011; Pagach and Warr, 2011)—a finding indicating *imperfect* capital markets. Gleißner (2019) describes a value-based risk management model that can circumvent this paradox. His model may therefore be of great value for firms wanting to better integrate risk management considerations into their strategic business decisions and thus be better equipped to steer the development of firm value.

Similarly, the third conceptual paper tackles a further strategic role of risk governance. Gotteiner *et al*. (2019) propose an "anti-aging framework" for implementing turnaround strategies based on risk governance. They argue that such a role of risk governance is vital since turnarounds are often necessary when organizations have not sufficiently considered "higher-level" risks. They note that more strategic, risk governance-oriented thinking in turnaround situations should lead to higher chances of such turnarounds turning out successful—a notion that links risk governance to the literature on organizational failure and decline (see Kücher and Feldbauer-Durstmüller, 2019).

The final paper in this special issue, authored by Handschumacher *et al*. (2019), investigates a specific aspect of risk governance—board interlocks. In the German two-tier system, board interlocks mean that members of the supervisory board of a given firm at the same time hold multiple positions on the supervisory and executive boards of other firms (Andres *et al*., 2013; Lamb and Loundry, 2016). Handschumacher *et al*. (2019) hypothesize that such interlocks are related to monitoring effectiveness. Based on longitudinal data from German listed firms, they find that board interlocks have both beneficial and less beneficial outcomes depending on the measure of monitoring effectiveness (e.g., excessive management pay vs. pay-for-performance sensitivity). The study therefore indicates that board interlocks are neither "good" nor "bad" per se. However, it shows that firms need to carefully weigh the benefits and costs of board interlocks for their risk governance.

3. Suggestions for further research

The papers in this special issue offer much food for thought for further studies of risk governance. In addition to the future research directions mentioned in these papers, some overarching research needs arise from this special issue. In line with its topic, I focus on (i) directions related to theoretical framing and (ii) directions related to empirical testing. Note that while the following suggestions for future research are certainly subjective (as is usual in such editorials, cf. Hiebl *et al*., 2018b; Quinn *et al*., 2018), it is my hope that they offer some inspiration for fellow risk governance researchers.

Alternative theoretical framings of risk governance phenomena. Existing conceptual and empirical works on risk governance have mostly been rooted in the prior literature (e.g., Mongiardino and Plath, 2010; Stein and Wiedemann, 2016, 2018) or agency-theoretic thinking (e.g., Aebi *et al*., 2012; Handschumacher *et al*., 2019; Lundqvist, 2015; Sassen *et al*., 2018). In this issue, Stein *et al*. (2019) add that framing theory may be a useful lens through which to better understand risk governance and risk management. Besides these, a plethora of further theories are available that could enrich our understanding of risk governance and risk management. For instance, consider the various strands of institutional theory. Some qualitative research has indicated that the implementation and design of risk governance and management systems are heavily influenced by organizational politics (e.g., Arena *et al*., 2010, 2017; Hall *et al*., 2015; Lim *et al*., 2017). Consequently, just as with the related field of management accounting and control (e.g., Hiebl, 2018; Markus and Pfeffer, 1983), often-studied pillars of institutional studies such as power and resistance (e.g., ter Bogt and Scapens, 2019) also seem important to understanding why and how risk governance is put in place. Risk governance research inspired by institutional theory could also adopt process views to better understand how existing risk governance institutions have emerged and can be changed. Also on such questions, several frameworks are available from the related field of accounting (e.g., Burns and Scapens, 2000; Quinn and Hiebl, 2018; ter Bogt and Scapens, 2019). Besides such opportunities at the organizational level, macro-level questions on risk governance could be investigated with the help of institutional theory. For instance, it would be interesting to understand whether and how risk governance institutions in organizational fields such as certain industries or at the economic/political level are shaped and trickle down to individual organizations. Ideas from new institutional sociology (e.g., DiMaggio and Powell, 1983; Dillard *et al*., 2004) could guide such research and illuminate how risk governance could develop into a more widely accepted paradigm. Specific research questions include:

- How are institutions around risk governance shaped in individual organizations over time? How can they be changed?
- To what extent is the construction of risk governance institutions based on "rational" considerations and how far do power, politics, and resistance affect the institutionalization of the concept?

- How and why could risk governance become a more macro-level institution for steering risks in business organizations?

Besides such research directions rooted in institutional theory, resource-based thinking could also be applied to risk governance research. Risk governance studies leaning toward corporate governance choices (e.g., Handschumacher *et al*., 2019) have already drawn on resource dependence theory. Besides this theoretical framing, the resource-based view (e.g., Barney, 1991; Kraaijenbrink *et al*., 2010) could also be fruitfully applied to risk governance research (cf. Stein and Wiedemann, 2016). Related research has shown that management control systems can be beneficial for developing key organizational capabilities such as innovativeness and organizational learning, which in turn can drive firm performance (Henri, 2006). Given that risk governance and management control share much in common and that some authors suggest that risk management is de facto an important control system (e.g., Culasso *et al*., 2016; Nielsen and Pontoppidan, 2019), it seems intuitive that risk governance might also influence organizational resources and capabilities significantly. This notion is underpinned by the idea that risk governance per se can be seen as a dynamic capability that could be linked to further capabilities and positive performance outcomes (Stein and Wiedemann, 2016). Specific research questions include the following:

- How does risk governance affect other resources and capabilities and how is it related to organizational performance?
- Under which conditions can risk governance be viewed as a dynamic capability and how does it interact with other resources and capabilities in determining an organization's competitive advantage?

Conceptually and empirically disentangling risk governance from risk management. While conceptual research on risk governance has tried to disentangle risk governance from other concepts such as ERM (e.g., Stein *et al*., 2019; Stein and Wiedemann, 2016), how these concepts can be distinguished empirically remains unclear. For instance, in her survey study of Scandinavian firms, Lundqvist (2015) interprets risk governance as a key component of ERM that moves traditional risk management toward ERM. She operationalizes risk governance with a series of questionnaire items and archival measures, and notes that her risk governance questionnaire items "are the typical characteristics of ERM addressing the organizational and holistic nature of risk management as ERM prescribes" (p. 453). Alternatively, Stein and Wiedemann (2018) suggest a measurement of risk governance based on their risk governance framework (Stein and Wiedemann, 2016). In contrast to Lundqvist (2015), their empirical approach to studying risk governance is not clearly related to ERM, but involves specific related constructs such as risk culture and the design of risk models. While the conceptual paper by Stein *et al*. (2019) included in this issue offers valuable propositions on how risk governance may differ from ERM due to different framing, data on how such reasoning fares in an empirical setting are lacking.

Hence, in line with this issue's central tenet of moving risk governance research forward to empirical testing, it seems necessary at this point to use existing and potentially develop additional systematic measures of risk governance to clarify how organizations approach this paradigm, put it into practice, and distinguish it from approaches such as ERM. Interesting research questions include:

- How do organizations distinguish risk governance from risk management approaches such as ERM? Do these concepts coexist in the minds of executives and supervisory bodies? If so, how are they related?
- Building on the first bullet point, how can we measure risk governance in quantitative research settings such as surveys and archival studies? How would such measures compare with existing measures of ERM (e.g., Beasley *et al*., 2015; Lundqvist, 2015) and how can the two concepts be disentangled in empirical research?

4. Concluding comments and acknowledgements

As indicated above, research on risk governance is still in a relatively early stage, and thus numerous attractive opportunities for future research remain, some of which are indicated above. Nonetheless, the papers included in this special issue bolster our understanding of risk governance and it is hoped that related research will follow suit.

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Finally, it is of course the authors of the insightful research papers that have made this special issue possible. They invested much time and thought in creating and improving their research with the help of reviewers' and editorial comments. I remain confident that the payoff of their endeavors is not "at risk", but will materialize in an increased understanding of theoretically framing and empirically testing aspects of risk governance.

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