[Introduction]
With the rapid behavior changing disruption of recent years, and the ongoing stream of corporate governance failures. ACCA has been digging deep into how interconnected risks such as climate change and geopolitical issues are influencing the way we approach risk management. This podcast series will look at what risk culture means and to what extent risk and accountancy professionals understand its impact on performance.

[Voiceover]
Dr. David Cooper of Cooper Leman is an accountant with a PhD in psychology. His work over the years has been primarily in private equity. And as a member of our special interest group on risk culture, he has really helped us delve into how accountancy professionals can do more to navigate today's turbulent world. In this episode, he talks about looking beyond the numbers when it comes to making decisions and influencing behaviors. I thought that we could start with what responsible leadership means today and ask you what's at stake for risk and financial leaders with accountancy backgrounds?

[Dr. David Cooper]
Well, I think the first thing to say is, at the moment, we are facing very high levels of instability, unpredictability, there's a widespread sense of brittleness and all the things we've taken for granted up to now no longer really apply. So, this does represent a significant challenge for leaders. One aspect of this all this uncertainty triggers a great deal of anxiety, some of which is below the surface. So, it's very important that that doesn't infect people's choices and judgment, which can really exacerbate risk. And I think from a leadership risk point of view, probably the most important thing is to recognize that the way leadership happens, the way leaders behave at this moment, needs to take account of all the uncertainty, so it's not a time for command and control. We're looking at what are sometimes called wicked problems, which are new situations which require new solutions, new approaches, the relationships between different variables are different. So, it's not a situation where the leader knows best, you need to be much more flexible, open, collaborate far more, allow space for doubt, and debate.

[Voiceover]
In our special interest group meetings, you talked a lot about how critical self-awareness is and that the best leaders are those who admit they don't know everything.

[Dr. David Cooper]
Yes, I think that's absolutely right. Based on what I was just saying, I think it is especially important. Now, I think there is another aspect of that, when you're looking at leaders with a financial accounting background. So, their expertise is rooted in a certain way of looking and thinking about the world, sort of collapsing everything down into numbers, which can be analyzed rationally. I think the really important thing when it comes to self-awareness, it's not just about awareness of the individual's style and the impact they're having on other people. It's also being aware and critical of your default way of looking at the world, your sort of default lens. So in the research that I've done, a lot of that has been really focusing on the significant blind spots, which arise if you only look at the world in terms of numbers, I mean, it is very appealing because if you do reduce the world into numbers, it provides a sense of certainty, rationality, which psychologically is very appealing, but that rationality comes at a significant price because it is very oversimplified and inherently backward looking. So, you need to be careful that as a leader, you're not just looking at the numbers, not just looking at quantitative financial information. So, three of the key blind spots have to do with firstly context. We are living in an emergent, constantly changing reality. We can't just extrapolate. And the other aspect of context is there are significant factors, which just can't be reduced into numbers. You know, all the intangibles. The human dimension culture, of course, which we looked at. The second blind spot is to do with time, and there is a tendency to just extrapolate from the past, into the future in a fairly linear way. And we lose sight of the fact that the past could have worked out in an infinitely different number of ways. And

then I think probably the most important one is to do with the interconnectedness of everything. Reducing things into numbers, putting them into categories, creates a sense of separation, whereas in reality, everything is connected in all kinds of different ways. And then within that, I would highlight interpersonal relationships and the significance of those. So, I think, from a self-awareness point of view, the most important thing is that leaders are careful not to overestimate how much they really understand. And based on that how much they can actually, realistically control,

[Voiceover]
You have a wealth of experience in the investment management industry. So, I thought it would be great for you to offer some insights on how effective leadership or perhaps lack of at these firms is evaluated?

[Dr. David Cooper]
Well, it's interesting, you know, one aspect of Investment Management is you're looking at numbers about numbers. So, everything I was saying previously, about the dangers and limitations of quantifying everything is kind of compounded in those settings. In a way extra important that leaders do stand back and pan out. There is this idea from philosophy, I think it was Alfred North Whitehead, who talked about the fallacy of misplaced concreteness. So, the symbol or the number is treated as if it was the real thing and you lose sight of the underlying reality, it's really important to look at what is actually going on. In terms of leadership in investment management, I think there are a couple of common issues which do require care and attention. I think you're asking about how leadership effectiveness is managed, one of the real problems that I come up against is the tendency to equate good results with good leaders, if you're leading well, you'll make lots of money for the bank or the institution. And if you fail to do that, then you can't be a good leader. And that is a hugely simplified view, and potentially quite dangerous. If you look at all the different case studies and scandals, it's pretty clear that very poor leadership can produce what looks to be good results. And it's also the case that very effective leaders do not always generate the most profit, I think a related problem is that people are often promoted into leadership positions on the basis of their performance as investors. Now those are very, very different skill sets, the individual who's been a superstar investor, finds themselves as a leader, their interests, their sweet spot, all of that is focused on the delivery. So, if you're not careful, the leadership part of that role is neglected. It kind of happens around the edge of what they're doing. And senior leadership requires a huge amount of care and attention, and it should be the central focus. And then the final thing is, you do see a tendency not really to invest sufficiently in people's development as leaders, there's this idea that he or she is a clever individual, they'll work it out. So, you often see this kind of sink or swim approach, which is hugely extravagant. And it is important to recognize that there's a very different skill set. It is very complex activity, and it requires ongoing care and attention.

[Voiceover]
In our report, we talked about the overconfidence of the respondents, including those in senior risk and finance positions or even board level roles, which he while on the special interest group agreed does not constitute a good risk culture. So how can this complacency be fixed before it's too late?

[Dr. David Cooper]
Well, I think overconfidence and complacency is almost inherently dangerous. I mean, the thing is, certainty is itself an emotion. And it is as fleeting as an emotion. Somehow or other the solution to this has to be to do with finding ways in which we can actively value doubt and uncertainty and encourage things like active open mindedness. I think part of this, and this does have to happen. I think on a collective level. A big part of it boils down to it needs to be far more acceptable for leaders to change their mind or admit that they were wrong about something, it is very, very difficult at the moment. If you look at senior leaders, if you look at senior politicians, and what then happens is they will cling on to a position I was just reading in this month's Harvard Business Review called 'FOPO' have you come across that? Fear of other people's opinions. Leaders somehow need to immunize themselves about that. And the I think the other side of this is to be really

careful about how busy people are this bias to action, making sure that you create time for people to stop and think and notice what new information is coming in what that suggests, for how decisions may need to be revisited.

[Voiceover]
In our calls to action, we talked about the importance of leaders working together and collaborating on more outcomes-based initiatives, including how we develop guardrails and safety measures for the adoption of AI and other advancing technologies. So how have you found such multidisciplinary engagement and greater cognitive diversity to be a key component of strong leadership today?

[Dr. David Cooper]
Well, I think there's no doubt that when you have a complex, varied agenda, you absolutely have to bring multiple perspectives, viewpoints to bear in order to do justice to that and find a way through the complexity. In practice, what does seem to happen is you can assemble a diverse team in terms of key variables of diversity. But that does not guarantee that those different perspectives will be brought into the discussion and into the decisions. And I think this is where effective leadership really does come in. So, it is the idea that for the leader to do a good job in this situation, it is super important that they find a way to bring all of the different perspectives to bear, bring them into the discussion, and then use that to drive a rich and wise decision.

[Voiceover]
Which is really important given the ethics side as well of the new technologies that we're facing today and how organizations take on the new risks and of course, opportunities.

[Dr. David Cooper]
Yeah, it's certainly not all about just financially exploiting those opportunities. It really does require a sort of 360 view of all the different aspects, the different stakeholders, all of the people who are going to be affected.

[Voiceover]
Yes. And when we talk about outcomes, getting that balance between innovation and impact on society at the same time.

[Dr. David Cooper]
Absolutely.

[Voiceover]
These insights complement the calls to action in our risk culture report, in particular number 10, which talks about how we, as a profession can promote outcomes-based innovation and regulation. Through both greater transparencies, and more multidisciplinary engagement. Our next episode focuses on responsible leadership in today's disruptive world.

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