

The Social Construction of Risk: Evidence from UK Banks

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ABSTRACT

This research presents empirical evidence of the perceptions of risk in UK operating banks and how these perceptions influence risk processes at these institutions. We used social constructivism to understand the views of UK managers in the banking industry. The study found that there was a divide in risk perception among risk managers in UK operating banks. Such a divide is crucial in explaining the differences in risk approach and risk processes in the banking industry. The discussion presented is based on the results of 25 semi-structured interviews. Two distinct characterizations of risk emerged from the data. One perceived risk as a calculable, measurable construct that can be managed, controlled and verified. The other conceived risk as a mixture of mathematical numerics and social ideals that engages an understanding of and appreciation for the concept. Each viewpoint represents an opportunity to fathom risk in its own context, contributing to the critical debate on risk management. The extent to which social factors influence risk decisions varied among banking institutions.

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INTRODUCTION

Early notions have characterised the concept of risk as a quantifiable, calculable measure (Fisher, 1906; Knight, 1921; Willett, 1901). The identity of risk as a numeric estimate has shaped the way risk management has been applied in financial institutions. This mathematical imaging presented risk as a variable that can be accurately measured and comfortably controlled. Hence, earlier research on risk focused heavily on assessing risk through estimation (McGoun, 1995; Slovic, 1987). This initial perception of risk offered one of the dimensions in which risk can be explored. Therefore, the critical literature on risk has led to other ways of conceptualizing and examining different approaches to risk management, such as the understanding of risk as part of a social construct, legitimized in a system of numerics and controlled through processes that aim to remove the very same social components that characterise risk (Mikes, 2009). McGoun (1995) suggests that this may be explained by a history of “risk measurement” that is in itself, plagued by questions of how the process of measuring risk may be severely flawed by an over-reliance on probability, estimation and expectation.

In addition, the financial crisis that began in 2007/2008 provides further evidence that the common notion of risk as an exclusive mathematical domain may not have been sufficient to explain the role of risk in capital markets, and further supports the theory that the social aspects of risk may have been widely ignored (Jizi & Dixon, 2017). This was solidified by most interviewees in this research, who envisioned risk management differently now than they did before the financial crisis. The difference included the role of sound professional judgement, values and principles in risk decisions, supported by a risk atmosphere of “conservative” risk appetite. Although the question of what constitutes “conservative risk” is still debatable, these attributes promote a perception that risk is better understood as a mixture of social ideals and mathematical representations, referred to by Mikes (2009) as a “calculative culture” that surrounds risk decisions. This study sought to explore this emerging perception of risk as a mixture of predictability and moral values, by offering empirical evidence from 25 interviews with risk officers and managers at two relatively large banks: Glass Bank and Penny Bank¹.

1 Glass and Penny Banks are pseudonyms in place of the actual banks on whom the research was conducted. The banks granted us access on the premise of anonymity.

This research found that along its trajectory, risk, for the most part, has maintained its facet of predictability; but perceptions of risk have changed among banking officials in the UK. The evidence presented extends the work of Wahlström (2009) and Mikes (2009, 2011). In his research, Wahlström (2009) examined risk perception in the banking sector using a social constructivist approach and found that an established practice of measuring risk may be negatively affecting banks' activities. The focus of Wahlström's (2009) research was specific to the implementation of Basel II in Swedish banks, which required a view of risk as a more quantitative model. Hence, the perception of risk and how it relates to the management of the concept was a reflection of opinions, experience and the impact of the application of Basel II on banking operations in Sweden.

Similarly, this study explored the perception of risk in banking institutions using social constructivism. However, this research was distinct from Wahlström (2009) in that it offered evidence from UK operating banks. Moreover, his research investigated risk specific to Basel II guidelines whereas this study examined risk as a social construct, in UK banks. In addition, this study examined the changing perceptions of risk managers in light of its history of measurability and the financial crisis of 2007.

In her investigation of risk, Mikes (2009, 2011) used ethnography to understand risk cultures in two different banking institutions. Perception of risk was found to be a "quantification and the rendering of an increasing number of risk types susceptible to quantification, measurement and control" (Mikes, 2009, p. 23). Some researchers (e.g. Buckley, 2011; Sikka, 2009) criticised this quantification of risk and assign part of the responsibility for the financial crash as being the result of using this measure. However, while Mikes (2009) recognised the use of culture in adopting a "holistic" approach to risk, she did not investigate the construction of risk and the movement in perception from being a purely calculable genre to being a mixture of mathematics and social conditions.

This paper is organised as follows. Pertinent literature is examined next by following the trajectory of risk. The methodology and methods used to gather and analyse the data come after. Then, a discussion of the findings is presented. The paper ends with some conclusions which include suggestions for future research.

RISK TRAJECTORY

Early Perceptions of Risk

Early literature indicates that the concept of risk may have begun at the start of the 1900s with the work of Willett (1901), Fisher (1906) and Knight (1921). It can be argued that these theorists in effect, had created a foundation for the development of risk notions. Their work, however, like the many others that followed, characterized risk as a quantitative measure (Covello & Mumpower, 1985). Risk has since been changing its appearance and the attention that is now given to this area in organizations has markedly increased (Power, 2007). Before the turn of the 21st century, risk management was closely tied to economic theory; hence measuring risk was preferential to understanding or exploring the concept. In recent times, although risk management has experienced a metamorphosis in approaches, the main focus remains an expression of formulae and computational measures. This attitude toward risk management seeks to make certain the uncertain future, by quantifying unknown variables via estimates (Dvorsky et al., 2021; Rosa, 1998, 2010).

Along its trajectory, 'risk' did not lose its key feature as a quantifiable, measurable variable (Miller et al., 2008), which has helped shape its definition and approaches in risk research. With the advent of the financial crisis, however, this view was the subject of sharp criticisms and some changes have been effected to help better understand and manage risk (Hopkin & Thompson, 2022). These changes, so far, have not been revolutionary (Harney, 2010) but rather have taken the form of modest incremental additions and adjustments to include aspects that cannot be easily quantified (Williams & Noyes, 2007). Changes to the image of risk were experienced as a result of deficiencies in the measurement regime, which seems to be unable to provide a rationale for accidents and failures (Sikka, 2009). In addition, emphasis on the measurement of risk as a numerical construct is not only evident in private financial institutions like banks and insurance companies as an economic measure (Taleb et al., 2009); but also in the public sector as a tool to assess value for money in Private Finance Initiative bids (Broadbent et al., 2008; Khadaroo, 2008). The emphasis on the numeric construct of risk, with the addition of the social realm, underscores the complexity of managing and assessing risk.

This can lead to a situation of constantly trying to improve the risk arena by protecting from unwanted situations and creating a climate of tolerable risk that can be reasonably managed and controlled. Meyer et al. (2021) refer to this as “risk incubation”, where we seek to optimize our risk situations. Nevertheless, these said situations can become uncontrollable and harm the very ones we were trying to protect (Meyer et al., 2021). As it relates to financial institutions, Palermo et al. (2017) referred to this as “Institutional complexity”, a situation where the institution expects a particular outcome based on its principles and practices, but that outcome is not secured because of the risk factors involved.

It is unlikely that the reliance on risk calculation as an economic measure and its association with profits and returns will be abandoned anytime in the near future (Harney, 2010). The path, however, that has long characterized risk, appears to be gradually changing (Arena et al., 2010). A departure from a purely numerical culture of risk to a mixture of mathematical and social skills seems to be the new direction (Mikes, 2009, 2011). The need to include moral values, culture, good judgement, transcendent principles and other ‘soft skills’ in the management and measurement of risk was a call long ignored (Slovic, 1987; Taleb et al., 2009). This new trend which includes a qualitative side to risk management would need endorsement, monitoring and participation not just from experts and professionals but from regulators, governments and both public and private institutions (Hall, 2009).

Definition and Classification

Attempts to define risk can be traced back to the early 1900s with a comparison to and a distinction from ‘uncertainty’ (Knight, 1921). The underlying substance of what became known as ‘The Knightian’ definition was to separate what was unknown but can become known in the future (risk), from what was unknown and may never be known. The latter, Knight believed, is uncertainty, because it cannot be measured and should be separated from risks. For Knight, this distinction was crucial in order to properly identify and manage situations that we have control over from those that we do not have the power to influence. This division of risk from uncertainty proved crucial in the advent of the 2007/2008 financial crisis which, if characterized by a Knightian definition, would better

resemble uncertainty events rather than risk mismanagement. However, this differentiation is not so important to some present-day risk champions who still prefer to classify risk synonymously with uncertainty, with Mikes (2011) arguing that:

Indeed, the starting point for all common risk management frameworks is the classification of uncertainties into categories such as market risks, credit risks, and operational risks (p. 228).

It seems that for Mikes, who muddled risk with uncertainty, the emphasis should not be on demarcating the two, but rather on moving away from a characterization of risk as a calculable domain. This deviates markedly from a Knightian perspective that advises against trying to measure uncertainty since it cannot be quantified and should be distinctly disjoined from risk. Agreeing with Knight, Bhimani (2009) contended that the separation of risks from uncertainty is crucial for the “operational strategy for the management and regulation of risk in organizations” (p. 2). Although Bhimani did not endeavour to define risk, he, argued that risk and uncertainty should not be comingled, but opposed to the traditional measurement of “economic theorizing” which he claims is too shallow to fathom the meaning of risk management and therefore no longer applicable by itself, in today’s dynamic risk environment.

A universal definition of risk and risk management is yet to be developed (Aven & Renn, 2009) and the problems experienced as a result of the measurement techniques used to characterize risk by both investors and regulators proved “highly problematic” for some banking organizations and are not properly understood by auditors (Sikka, 2009). Yet, most of the definitions of the terms include some measurable or calculable circumstance(s). For example, Lowrance (1976) describes risk as a probability measure, while Kaplan and Garrick (1981) added consequences to that definition. Rosa (1998, 2010) included human actions, values and outcomes in his characterization of the term. Hence it appears that risk can be several things, everything and nothing at the same time (Power, 2003, 2009). This is captured in Garland (2003)’s definition of risk which seems to be an attempt to arrest all previous definitions. According to Garland (2003),

Risk is a calculation. Risk is a commodity. Risk is a capital. Risk is a technique of government. Risk is objective and scientifically knowable. Risk is subjective and socially constructed. Risk is a problem, a treat, a source of insecurity. Risk is a pleasure, a thrill a source of profit and freedom. Risk is the means whereby we colonize and control the future (p. 49).

By this definition, Garland (2003) had proposed the way forward for risk management by suggesting that risk is both subjective and objective. This can be translated as risk having both quantifiable and non-quantifiable sides. By including contrasting terms in his definition like treat, thrill, problem and pleasure, Garland (2003) implies that risk can be all things at the same time, a similar position taken by Power (2003, 2007). Nevertheless, the very diversity of this definition opens it up to a critique of it being overly broad and not taking a specific stance (Aven & Renn, 2009).

Beck (1992) defined risk as 'indiscriminate'. By using a model he called 'risk society', Beck (1992) argued that risk is random, chaotic, blind and aimless and that society should be careful, watchful and beware. Beck's explanation has been popularly endorsed by risk experts and professionals and has crafted the way we view risk today (Hanlon, 2010). It supports the idea that risk cannot be completely controlled nor fully understood, and attempts to limit its effect may be ineffective. Hanlon (2010) disagrees with Beck, and argues that risk can be understood from an 'ontological view of knowledge' which would better be seen as an engagement with this abstract idea rather than a fear of it (Hanlon, 2010). This, according to Hanlon (2010) would promote a better understanding of risk regardless of its form or consequences.

Perhaps one of the most prominent definitions of risk came from the Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2004). This committee not only defined risk but also positioned its role in organizations by providing a framework that will later come under heavy scrutiny. COSO (2004) defined Enterprise Risk Management as

a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect

the entity, and manage risk to be within its appetite, to provide reasonable assurance regarding the achievement of entity objectives (p. 4).

By its definition, the committee is advocating that risk management is a process that affects all aspects of an organization; hence, it is relied upon in areas of compliance, reliability and regulation (Melendy & Huefner, 2011).

A New Direction and the Role of Regulation

Despite its grounds in the measurement and history of economic principles, risk management has taken a new function of judgement over measurement (Mikes, 2009, 2011). This call, Mikes argued, was made as a result of repeated failures in the calculative assessment to provide logic for crises like the financial crash that began in 2007. This brings into focus, the role of regulation and underlying systemic risk assumptions that may not be explained by current risk models (Ma & Song, 2016). As a result, a new “boundary” was set, not only to give a rationale or seek new direction, but also to act as a scapegoat for risk professionals who are strong advocates of a regime of risk quantification (Mikes, 2011). A move away from computational measurement to what Mikes describes as “soft instrumentation” is inevitable, where perception (as a result of prior knowledge), culture, appreciation and personal understanding would become key. The changing face of risk has generated fervent debate among experts, but has also presented a range of questions and highlighted the need for much more work in this field. However, engaging in debates on risk management that can encourage discussion in an effort to promote participation and generate openness of ideals is not always an easy task, “especially for socially significant organizations like banks” (Power, 2009, p. 33).

Exploring risk as part of the new route to understanding this concept is gaining momentum among experts and professionals, though in different forms (Kaplan, 2009; Power, 2009; Wahlström, 2009). Mikes (2009) for instance argues that organizational and risk cultures are key to conceiving risk management improvements. Kaplan (2009) contends that the discernment of risk philosophy begins with a strategy which should include the separation of the different types of business risks before attempting to socialize them. Power (2003, 2009) suggested that the rapid change and rise

of risk especially in financial institutions can only be adequately understood in the context of the organization's objectives and their risk appetite. Despite their slight variation in views, these risk advocates all seem to be alluding to an organizational approach to examining risk as a possible future solution to mitigation (see Van Greuning & Bratanovic, 2020).

Other theorists, however, believe that regulation is pivotal in the subsequent direction of risk (Buehler et al., 2008; Hall, 2009). Buehler et al. (2008) argued that unless regulatory bodies mandate more stringent rules regarding risk, especially in financial institutions, then unwarranted risk-taking is unlikely to cease. This, Buehler et al. (2008) suggested, because of the high returns that are associated with and normally follow ambitious risk-taking. Hall (2009) also cites regulatory bodies, namely the UK's Tripartite², as significant in shaping the way forward for institutions as it relates to risk behaviour. The highly political nature of the three however was hampering their ability to function as a 'unit' with the common goal of guiding the financial industry.

Critiquing current frameworks and models of risk appears to be common in most of the debates theorizing risk management. The COSO (2004) framework and the Turnbull report which have long been seen as authentic for guiding internal control processes especially as it relates to risk are now under scrutiny (Power, 2004, 2007). Power (2007) argued that the COSO framework (among other faults) "may not be suitable for organizational realities. It posits risk appetite as fixed rather than emergent and official risk tolerances may be ignored" (p. 79). By this claim, Power (2007) may have suggested that COSO (2004) is no longer adequate to meet the demands of the accelerated changes like some of the softer qualities of risk that are now synonymous with enterprise risk management.

RISK AS A SOCIAL CONSTRUCT

This study engaged a social constructivist approach to studying organizational phenomena. This approach is closely aligned with interpretive research and some academics perceive social constructivism as an integral part of interpretivism (Haigh, 2006; Hopper & Powell, 1985). This concept

² In the UK, the banking system is supervised by the Tripartite Authorities: the UK Treasury, the Bank of England and the UK's Financial Services Authority.

seeks to understand ‘meaning’, and involves the employment of norms, cultures, values and consciousness in human actions (Berger, 2017; Berger & Luckmann, 1967). Founded on Marxism, social constructivism encompasses the inclusion of all social actions as meaningful (Lindsay, 2018). It postulates that we know reality in our everyday lives and that knowledge is socially constructed and includes a fabric of meanings that keep society and organizations functioning (Burrell & Morgan, 2016). This has implications for understanding the perception of risk managers in the organizational structure of banking institutions. Each manager has his own opinions, norms, values, feelings and judgements that form part of the social life of the bank. Thus, understanding and interpreting the meaning of each manager as a social actor is crucial in perceiving the organisation as a whole and the social constructs that surround it (Lindsay, 2018). Therefore, the socially constructed nature of the rules and principles that govern the entity, is a collective of each individual’s constructed reality (Hines, 1988).

Social constructivism acknowledges reality as subjective. Hence society is not viewed or understood as an objective abstract, but rather a collection of subjective meanings, accumulated through individual experience and social actions (Rutherford, 2003). Thus, the banking system and the management structures that constitute this system exists as a network of interconnected norms, values and judgements that are understood in their own contexts and carry their own meanings (Bendix, 1998; Weber, 1947). Therefore, human beings are viewed as creating their own world and understanding it in their own way, not reliant upon laws of externality (Sarantakos, 2019). This can be conceived in the roles of risk managers as their perceptions and views form part of their reality, shaping the organizational structure and system of UK operating banks.

Social constructivism assumes that knowledge is a social construct of our society, our environment and our personal experiences (Berger & Luckmann, 1967). Thus, what we know as humans is not reliant on independent forces, but is rather a fabric of interconnected social effort, cultivated in our daily lives. Hence our world and the way we view it is a constant and ongoing occurrence, shaped by the things we do in our society as human beings (Tulloch, 2008). Consequently, the knowledge we acquire is a construct of our social interactions as individuals, as members of our society and as part of the organizations that we work for. This means that

there is a habitual transfer of knowledge between society and organizations. This knowledge is a creation of norms, culture, values and judgements that fuel how we experience life; It is what shapes our perception of what is real and how we react to circumstances (Lindsay, 2018).

Risk managers operate in an organizational setting that is characterised by its unique attributes. As part of the banking structure, these managers contribute to the form and existence of the bank in their daily routines and the risk decisions that they make. The contributions made and the decisions taken are a construct of their perception, based on their experiences and social actions. Hence, the banking structure now becomes a network of individual social experiences and practices collated into a system designed to meet organizational outcomes. Understanding the dynamics of risk in these institutions will now involve an understanding of the individual perceptions that constitute risk actions. Social constructivism is an approach that examines individual and group behaviour as a creation of their social environment. Therefore, a risk manager's understanding of risk is viewed in the context of his social experiences and encounters with risk and not just as an outcome of the policies and procedures that guide risk behaviour at the institution. The managers' view of risk is best understood as a collection of social ideals, beliefs and acceptance of how risk functions in the banking institution.

In addition, risk managers also draw on the existing organizational structure as part of their wealth of knowledge. This means that as a member of the banking institution, risk managers abide by the rules and regulations that govern the organization. For example, rules and procedures that guide risk appetite are an integral part of the organizational order in which managers operate.

Although highly appreciated in the study of organizational phenomena (see e.g., Neimark & Tinker, 1986; Neu, 1992; Rutherford, 2003; Young, 2006), the social constructivist approach has its limitations. This approach seeks to explain all phenomena from a social perspective (Sørensen et al., 2019). Consequently, with individuals interpreting actions and meanings differently, this approach assumes that social interaction is sincere and that understanding such is a true reflection of the meanings perceived. Deception, communication and language misinterpretations can markedly impinge

on the meaning intended. Stepping outside of the ‘social’ may mean that actions are meaningless and destitute.

METHODOLOGY AND METHODS

The Interviewees

This paper presents empirical evidence from 25 interviews with risk managers and other risk officials from UK operating banks. The interviewees were drawn from a total of five banking institutions of different sizes and varying organizational structures. Three of the banks are very large with international operations, formal organizational architecture and relatively bigger capital structures. Although three of the banks were bigger in capital structures, only two would be analysed in this paper. These two banks (Glass and Penny) had varying operations designs and procedures for their risk management protocol. The other two banks were much smaller with less formality in their organizational design. The risk officials interviewed were from varying backgrounds, cultures and experiences. The participants were chosen because they were willing to dialogue and are knowledgeable of risk operations at their institutions. Table 1 below summarizes the demographic profile of the interviewees.

Table 1: Interviewees’ Profiles and Codes

Code Name	Interviewee Position	Years of Experience	Department
B1	Branch Manager	7	Corporate HQ
B2	Manager, Risk Strategy	14	Risk Management
B3	Operations Manager	16	Investment Banking
B4	Branch Manager	3	Corporate HQ
B5	Credit Risk Manager	4	Risk Management
B6	Personnel Manager	7	Human Resources
B7	Operations Manager	9	Investment Banking
B8	Director of Risk Strategy and Risk Trainees	6	Risk Management
G1	Branch Manager	10	Corporate HQ*
G2	Manager, Commercial and Credit Operations	6	Risk Management
G3	Director of Risk Strategy	7	Risk Management
G4	Branch Manager	10	Corporate HQ
G5	Senior Risk Official	8	Risk Management

G6	Deputy Manager, Banking Operations	4	Investment Banking
G7	Senior Risk Official	8	Risk Management
G8	Branch Manager	10	Corporate HQ
G9	Assistant Manager, Operations	6	Investment Banking
P1	Branch Manager	4	Corporate HQ
P2	Operations Manager	8	Investment Banking
P3	Head of Risk Operations	6	Risk Management
P4	Credit Manager	9	Risk Management
P5	Branch Manager	3	Corporate HQ
P6	Personnel Manager	7	Human resources
P7	General Manager	5	Corporate HQ
P8	General Manager	5	Corporate HQ

+HQ = Head Quarters

All of the interviewees had previous working experience in banking operations and risk management (some to a lesser extent than others) before they were appointed to their current roles. Some of the interviewees were senior banking risk experts while others were operational managers. This may have implications for the views expressed, as operational risk managers may perceive risk differently from that of their senior colleagues, even in the same organisation. Their roles and functions are not the same and thus may or may not collectively represent a different silo of ideals on risk (Mikes, 2009).

The Banking Institutions

Although the banking institutions were of different sizes and organizational structures, they all have operations in the UK. Only risk managers from the UK operations were interviewed. As it relates to risk decision-making, the two smaller banks had a more centralised approach with a single senior risk manager responsible for most of the risk decisions. The larger banking institutions from this study, all had some form of centralised risk functions at the corporate level, but some of the decision-making authority remained with branch managers. The nature and extent of this divisional risk authority varied among the participating banks.

Financial statements and other public disclosure documents were obtained from the banking institutions. Some of these other documents included amendments, updates, and customer satisfaction reports. None of

the banks in this research had a separate risk disclosure document. Rather risk operations, policies and procedures were communicated to investors and other stakeholders as part of the annual report. This may mean that banking institutions perceive risk as part of the integral functioning of the organisation and not as an externality, separate and contingent on its own accord. This ‘holistic’ approach to risk was found to be the essence of enterprise risk management in banking institutions (Mikes, 2009).

The Interview Process

The method of in-depth semi-structured interviews was chosen because it gives a convenient opportunity for us to probe and explore as we go along. It also creates an environment for dialogue that is crucial to understanding and appreciating human perceptions (Kvale & Brinkmann, 2009). The interviews were relatively informal and all parties, in our opinion, felt relaxed and comfortable. Such comfort is crucial in creating a calm atmosphere, which is vital in social research (Blaikie & Priest, 2019).

Each participant was presented with approximately 15 semi-structured interview questions. The list of questions was not exclusive and was modified as the process evolved. Each interview lasted for approximately one hour and fifteen minutes and was conducted at the interviewees’ place of work. Some interviews were longer as probing revealed new perceptions and new ways of approaching risk and exploring the participants’ ideas is important to the extent that these thoughts were exhausted, and additional questioning revealed similar answers. Such an approach is pivotal in conceiving ideas that are being constructed during the process of interviewing (Kvale & Brinkmann, 2009).

The questions selected for the interviews were predominantly aimed at addressing risk perception from the manager’s perspective. These included questions on changes in processes and systems that may reflect changing perceptions of risk.

Analysis of the Data

The data collected were analysed using a thematic approach. Under such a method, information containing similar themes are grouped as

'codes', and then streamlined for the main findings (Richards, 2020). After the data were collected, they were reviewed several times. First, each participant's answers were reviewed separately, in order to get the substance of the main ideas expressed by the participant. At this stage, the themes identified were words or phrases that defined the main ideas or the gist of the participant's replies (Auerbach & Silverstein, 2003). These were then reviewed again for particular themes that reflect the research questions (Lampert & Ervin-Tripp, 2014). For example, as it relates to the question that explores the participant's perception, codes or themes like "views", "opinions", "judgements" and "impressions" were identified. Other themes like attitude, belief and conduct were identified in addressing relevant data for questions relating to risk culture.

After the data was coded into themes, the major themes were encircled and placed on a 'mind map'. This map enabled us to see all the major themes that emerged from the data and further streamline them if needed. It also allowed us to group themes of similar tones together. Arranging the data in this way was done individually for each participant at first. The next step was scanning our field notes for words, phrases or sentences that reflect the themes identified by each participant. Coding the data into themes was important in gauging concepts and opinions from interview subjects (Friese, 2019). The drawback to this is that it is a time-consuming process and it can be difficult identifying the key themes that relate to the research (Murtagh, 2005).

With the mind map now coded into themes and the data organised into these themes, we were then able to search for common expressions. These were identified and separated, particularly for developing our findings. Although common themes were drawn from the responses, the findings were presented with the recognition that each risk official is unique in his expression, a concept supported by social constructivism (Rutherford, 2003). In the next section, our findings are presented.

FINDINGS AND DISCUSSION

The Social Currents of Risk

We have found perceptions of risk to be dissimilar among banking officials. For example, at Glass Bank, risk remained a representation of measurability, while at Penny Bank risk was explored more as a social force, with less reliance on mathematics and numbers and greater emphasis on customer satisfaction and relationship building. These two banks presented opposite views of risk atmosphere and hence their processes and procedures were markedly different in risk approach. All of the other banks in our study conceived risk as a mixture of quantitative numerics and social ideals, and recognize the importance of both in a more balanced approach to risk management. This is similar to what Wahlström (2013) found where managers and other risk experts prefer to rely on numbers and mathematical matrices for some risk decisions but sound professional judgement for others. The addition of social values to risk in banking institutions is not unique to UK Banks (see e.g. Mikes, 2009, 2011; Wahlström, 2009). Most risk officials interviewed expressed the need for risk to be understood before being managed. The understanding of risk in the process of risk management marks an inclusive approach to the changing dynamics of risk management (Power, 2007). The fact that risk can be understood, studied and managed from its social tenets, may present an opportunity for risk managers to make risk decisions using a more mixed approach of social and mathematical merits, rather than relying on numerics only.

Risk Perception at Glass Bank

The senior risk executive at Glass Bank characterised risk as an external variable, separate and distinct from social thought. Risk, according to this senior executive should never be foiled by the interference of personal values, judgement or culture. This was expressed in his opinion when asked about social values in risk decisions:

The whole aim is to avoid that to a certain extent. So we are trying to screen that out. Things like trust and value judgements are not a part of risk. However, we are still human beings and so we learn from our experiences which may from time to time include a judgement call. (G3)

Glass Bank had relied heavily on a ‘numbers’ approach to risk management for most of its existence. The risk director did not encourage the implementation of policies that promote the integration of social factors into the risk process. The removal of value judgements and other social forces from risk decisions at Glass Bank meant that risk was virtually a fully mathematical construct, dependent and reliant on calculable estimates. According to the director of risk strategy, this approach had worked well in the past and kept the bank strong during the financial meltdown. The bank remained relatively strong during the crisis although it suffered some heavy impairment losses. This reliance on mathematical estimates was evident from Glass Bank’s financial statements where risk disclosure was mostly quantified; credit and market risks were presented as net exposures in numeric form and balance sheet items were re-presented to reflect the level of risk that the assets and liabilities includes. The banks customers were not a part of its risk disclosure like in Penny Bank, and little emphasis was placed on the role of judgement in the calculation of the numbers presented. Glass Bank’s approach to risk mirrored a ‘factual representation’ of uncertainty (Knight, 1921) with little regard for subjectivity or the social process that led to the estimates. Nevertheless, the recognition that we are still humans and would need to make judgement calls, by Glass Bank, is testament that it is almost impossible to completely ignore the social currents of risk in decision-making.

Glass Bank measured its customer satisfaction on the basis of returns. For Glass Bank, customer comfort is a function of protection from unnecessary risk and a reward of moderate to high returns. The senior risk official did not believe that investors are interested in the “social process” of risk but are rather concerned by the end results that it produces. When asked about the bank’s customers and their satisfaction with the risk approach, the senior risk official replied:

Most of our customers are not aware of how we manage risk. We know that they are satisfied when they see results, for our investment customers, and when they receive their products at lower rates for our credit customers. They are not interested in the process, but rather in the results. (G5).

This is akin to the idea that Beck (2005) framed the attitude of risk management as a “rewards” oriented paragon. The perception of risk as a measurable attribute can be accredited (at least in part) to the characterizing of risk based on profit and returns:

We ask ourselves this question. What do our investment customers want? And what do our credit customers need? I do not know of a single customer who isn't satisfied with returns on their investment. The bigger the returns the more satisfied they are. When it comes to customers who borrow from us, then I suppose some customer service comes into play, but we do things by the numbers. If they do not meet our lending criteria, we don't bend. It's when the rules are broken, disasters like the financial crisis occur. (G5)

Hence, for Glass Bank, the success or failure of risk management was not a reflection of the experiences of the risk process that may have included reflexivity to risk resolve (Beck, 2005), but rather, a product of the end result of estimations and calculations made and the extent to which such estimates represented an accurate reflection of market conditions. The understanding of risk from this viewpoint would include knowledge of banking systems, risk profiling, market conditions and technology.

Risk Perception at Penny Bank

This research found that there was an emerging perception that recognised risk as a mixed epitome of both a social and computative manufacture. At Penny Bank, risk was first categorised as a function of customer satisfaction. This approach to risk management is unique in that the focus of most risk decisions is a reflection of the social forces behind the numbers. Penny Bank adopted a risk philosophy of conservatism, driven by unique customer profiles and a risk atmosphere that is grounded in moral values, sound professional judgement and best customer practices. Understanding risk management at this bank involved an appreciation for customer gratification, reasoning, and social conduct. The risk process began and ended with customer dialogue and interaction. Risk decisions were based primarily on the bank's “customer model” as opposed to a risk framework found at all of the other banks that were a part of this study, which according

to senior risk officials made it different from all other banking institutions. There is no formal numeric system for assessing risk, but customers are rated based on trust, creditability, loyalty, business approach and strength of management experience. One senior risk official relates how part of the decision process to accept or reject a customer unfolds:

In this bank, there is no credit scoring system; decisions are intuitive. Not a case of putting numbers in a computer. So the need to understand risk is crucial. Full care and attention is given. A lot more direction and dialogue, a lot of debate and discussion and human interaction. We meet with clients several times before we accept them as customers. We want to know the nature of their business, how long they have been in operation, who their customers are, how their customers are treated, why they want to do business with us. Do they share our principles and ideals? Not all of our customers that pass our ratios test are accepted. We need to know that this customer shares the spirit of our values, because we are focused on building long-lasting customer relations. (PI).

The emphasis on the “softer side” of risk at Penny Bank was unique. Managers and prospective investors developed a close relationship, in which the manager gets to learn more about the customer and their business operations. The customer is exposed to the strong social values of the bank, to its honesty, truthfulness, trustworthiness and conservative approach to risk. Risk management was not only a function of attaining an acceptable score, but a rounded, inclusive approach to knowing and understanding the customer’s business, its future, its clients and prospects for a long-term relationship. This social risk atmosphere at Penny Bank began with its employees. The bank emphasized hiring people who were caring, good at communication, possessed strong moral values, were well-grounded with integrity and, were endorsed by a wealth of experience. According to a senior risk official, employees were the key to selling the banks values:

Ideally, we would like to know our customers for at least one or two years before doing business with them. Unfortunately, customers can’t always wait that long, so we use our experienced staff to learn our customers as quickly as they can: Who are they?

Why are they coming to us? Are they greedy? Do they want a high return in a short period? Do they value this relationship? The numbers don't answer these questions, but knowing the customer does. We turn away investors that come to us for the wrong reason. Just last week, we had to say no to a customer who met all the criteria numerically, but failed our test of principles. (P3).

The perception of risk as a social force at Penny Bank represented a different approach to risk management. Such an approach classified risk as an amicable understanding between customers and the bank, where trust, integrity and professional judgement were critical to understanding how investments are made and how markets operate. This slower, more conservative attitude to risk requires an in-depth analysis of the social factors surrounding customers during the risk process. Existing customers were continually audited, not formally, but through cordial conversations and interactions to safeguard the bank's highly guarded reputation as a lending leader based primarily on strong principles. According to one branch manager, the bank offered its credit customers reasonable rates, but was wary of those who showed signs of selfishness or were constantly unreasonable:

We can't please everyone. We know that. But our rates are comparatively lower and we do that because we are not a greedy bank, we care about our customers. So when we set our rate on lending most of our customers are happy. But sometimes a few of them are constantly pushing and negotiating for lower rates. We have to be wary of those ones. Greed does not complement our values. We can refuse a customer on that basis alone, because some banks do not even consider negotiating their rates. But we do that for our larger, newer customers. If they push too hard, we know it's not a good match for us. (P5)

The importance of trust in the communication process with Penny Bank was crucial. It is at this point that the bank decided if the customer is going to be a good match or fit with the bank's long-standing principles of customer service, integrity and honesty. This is synonymous with lending officers using their knowledge and experience to make decisions on credit risk (Wahlström, 2013). The constant examination and evaluation of a credit risk decision by the bank lend credibility to the social construction of the decision (Wahlström, 2013). Penny Bank encouraged this reflexive process.

As it relates to the annual reports, risk did not form a separate section as is the case with the other banks. Rather, discourse on risk was integrated throughout the report, but mostly reflected in the “customer care” category. The principles of the bank as it related to risk were explicit and the bank’s low tolerance policies to risk management are clearly stated. Penny Bank’s risk disclosure took a more qualitative approach with little or no numbers and lots of communication on customers and risk attitudes:

The bank’s strict approach to risk means that it deliberately avoids high-risk transactions, even if the remuneration may be high at the time. Lending has a strong local involvement, where close customer relationship promotes low credit risks. This contributes to good risk management and sustaining a high service level, even when operations and the markets on which the bank operates are subject to strain.

(Penny Bank, Annual Report 2011)

The importance of communication in the risk process for Penny Bank, arguably cannot be overstated. This was highlighted in its risk report in recent years:

Our idea of how to run our Bank is based on trust and respect for individuals, both customers and employees. At (Penny Bank), we strive to evolve and improve, so that we can be the best possible bank for our customers. We create value in each customer meeting.

(Penny Bank, Risk Report, 2021)

Risk Perception at the Other Banks

Both Glass Bank and Penny Bank commanded special attention because of their unique but almost opposite approaches to risk management. Glass Bank emphasised a culture of measurability to risk management while Penny Bank relied on a conservative approach that required the personal knowledge of its customers and the social factors that characterises their business. However, all of the other banks in this research, viewed risk as a mixture of both numeric estimations and social factors. The dependence on numbers to explain risk decisions remained the dominant course of

action for most banks. Nevertheless, there were other factors identified as very important to the contours of risk. These included the role of sound judgement, experience and personal values.

This study also found that regulation had little role in shaping risk perception of managers in UK banks. Most interviewees perceived the UK Tripartite as too political and marred by bureaucratic hindrances that affected the functioning and effectiveness of providing much-needed guidance on risk management. As it related to voluntary regulation, Basel III was generally perceived as a needless contrivance, not well established in the operations of these banks. This is different to what Wahlström (2009) found, where Basel II is well established in four of the largest banks in Sweden. The little regard for the new Basel Accord stemmed from the view that most of the banks in this study had already stepped up capital and liquidity measures long before the advice of Basel. This may be an indication that a slow reaction to provide adequate guidance on risk may push banking professionals to rely on other means to formulate their own solutions based on past experiences and market conditions.

A common theme among banking institutions in this study was the slight move away from a numbers approach toward risk management. None of the bankers interviewed believed that a calculable approach to risk would be completely replaced. However, elements of a non-quantifiable domain have begun to make inroads in the risk process in the UK banking system. The extent to which these will influence risk decisions in the future remains to be seen.

CONCLUSIONS

This paper presented empirical evidence on the perception of risk in UK operating banks. We found risk to be an evolving ideal, consisting of a mostly quantitative approach to measurement and execution. The calculable facet of risk has its roots in the early characterization of this ideal as a function of probability and estimations. Such a mathematical measure of risk was encouraged by regulation that requires risk reporting to be quantifiable. In this regard, less emphasis was placed on understanding or exploring risk as a function of its environment and more attention was given to probability

scenarios and possible outcomes. This is mostly because risk is generally tied to rewards and institutional investors have traditionally opted for “real” measurable returns over non-quantifiable ideals.

With the advent of the 2007/2008 financial crisis, the system of risk quantification has been called into question. In response, financial institutions have adjusted their decision-making process to include elements of sociality in the risk arena. Except for one, all the banks in this study recognised and used social factors to help guide risk decisions. This has significant meaning for the future of risk research and the impact it has on the changing economic landscape (Power, 2018). It is unlikely that risk will undergo any revolutionary changes in the near future to become a complete social procedure in the context of banking. Nevertheless, incremental steps have been taken to recognise the importance of integrity, moral values and sound professional judgement in dealing with risk.

The discourse on risk is likely to continue to be controversial. Part of the challenge for future research lies in the approach taken to comprehend risk, which may lead to a better understanding of risk appetite at financial institutions, not just in the UK, but in other regions of the world. This research used a social constructivist approach and found risk perception to be, for the most part, a mixture of numerics and social tenure. This study made no attempts to differentiate risk perception from a gender perspective. Future research can investigate gender perceptions of risk. In addition, this research can provide a building block for risk research in the context of other influencing factors like economic (the perception of risk in wealth creation), political (for example risk management under the rule of liberal or conservative) and regulatory (like risk perception under stricter regulations or less regulatory control).

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