Systematic Risk Blindness

by Frank Romeike, Managing Partner, RiskNET – The Risk Managment Network

Our day-to-day lives are accompanied by extreme weather events, industrial accidents, failed infrastructure projects, large-scale business collapses, epidemics, pandemics and many other incidents and disasters. These events frequently provide an example of systematic risk blindness, as well as attempts to conceal, cover up and gloss over.

After a disaster, the first reaction is very often "That's something we couldn't have known..." as everyone starts passing the buck. Essentially, this is a distraction tactic to divert attention away from a lack of effective risk management. After the most recent extreme weather event in western Germany, for instance, politicians tried to deflect attention away from their own risk blindness and their own errors and omissions by pointing the finger at global climate change.

The past is full of cover-ups and extreme incompetence in the assessment of risk scenarios. Take for instance, the reaction to the Rasmussen Report, which was produced in 1975 for the U.S. Nuclear Regulatory Commission by an expert committee under Norman Rasmussen. It generated a storm of outrage and criticism in the years following its publication. Why?

Norman Rasmussen was a U.S. nuclear physicist and professor at the Massachusetts Institute of Technology (MIT), and the Rasmussen Report introduced, for the first time in the field of nuclear technology, new probability theory and quantitative safety and risk assessment methods (probabilistic risk assessment, PRA). In particular, the report used concrete scenarios to assess the potential impacts that a tsunami could have on a nuclear power plant. It came to the conclusion that in cases a possible tsunami and high water levels caused by hurricanes, the plants should be constructed to withstand the largest waves and water levels that can be expected (i.e. the worst-case scenarios).

··· ·

About the article

Against the backdrop of the psychologically based subjectivity in risk perception, it is necessary to develop a set of tools focused on counteracting risk blindness. We need evidence-based methods – for example, to assess and aggregate risks – because intuition too often fails when it comes to taking risky decisions in complex situations.

Were the findings from the Rasmussen report taken seriously in preventive risk management or in plant construction? Not at all. Instead, people preferred expediency and appeasement. They averted their eyes from the uncomfortable truth and covered up and glossed over critical scenarios that had been informed by an evidence-based risk analysis. Wishful thinking supplanted evidence-based facts.

On 11 March 2011 the scenario outlined in the Rasmussen report became reality: The earthquake off the Pacific coast of the Tōhoku region triggered a tsunami that flooded an area over 500 km² along Japan's Pacific coast. As a consequence, the Fukushima Daiichi nuclear power plant (Fukushima I) was hit by waves 13 to 15 metres high. An aggravating factor was that Fukushima I was not connected to the existing tsunami warning system, so operating staff were not warned in advance. In addition, the protective wall on the ocean-facing side of the site was only 5.70 metres high.

Don't wait until there's a storm to build lifeboats

The COVID-19 pandemic caused by the SARS-CoV-2 virus is another striking and painful example of risk blindness, shaky risk perception and a lack of risk competence in government and among large numbers of business leaders. A pandemic was an event that was certain to happen at some point and will continue to affect human life on this planet in the future. The only unknown factor was the exact time it would occur – not the event itself. Risk management should anticipate precisely these kinds of stress scenarios and define preventive measures so that organisations and governments don't founder in the stormy seas. Many political and economic actors simply ignored the weather warnings and failed to prepare. After all, you don't wait until there's a storm to build lifeboats.

Infection risks and pandemics have been giving farsighted serious scientists and risk managers sleepless nights for years – especially against the backdrop of global gain-of-function research – as has the scenario of a blackout or collapse of global infrastructure. Many years ago, Hans Rosling, an excellent statistician, risk researcher and professor of international health, described the five global risks to be managed with preventive actions. The top risk described in his book Factfulness (2018), is a global pandemic.[1]

The mathematician and risk researcher Benoît B. Mandelbrot, who died in 2010, also repeatedly criticised the unprofessional way that we deal with risks and uncertainties. According to his analyses, most risk management systems are blind to extreme events. Businesses and politicians concentrate primarily on "fine-weather scenarios". Mandelbrot pointed out that risks are measured incorrectly and that painful worst-case scenarios are disregarded: "For centuries, shipbuilders have put care into the design of their hulls and sails. They know that, in most cases, the sea is moderate. But they also know that typhoons arise and hurricanes happen. They design not just for the 95 % of sailing days when the weather is clement, but also for the other 5 % when storms blow and their skill is tested." (see Romeike 2015). Politicians and business leaders, on the other hand, often behave like mariners who ignore weather warnings.

The metaphor of the village and the jungle

The world of the unknown and of big surprises and stress scenarios can be described using the metaphor of life in a village and the uncharted jungle that surrounds it (see Fig. 1). Inside the village – enclosed by a fence – we feel safe and have the main risks under control. We can assess the risks of normal village life (or business operations) fairly

Editorial

Mirko von Haxthausen joined Gen Re in 2010. He heads the Gen Re Business School within the Research & Development unit. His team supports Gen Re's clients by developing and providing seminars, web-based-trainings and publications to meet the various needs of professional education. The product offer ranges from soft skills to target group specific technical topics.

Even before the start of the pandemic, the modern world was often described in terms of a growing amount of information, increasing workload and rapid change. The last 20 months have shown how unpredictable the future can be and how difficult it is to anticipate change. Especially in complex and uncertain situations, making decisions is challenging. But decisions are necessary for achieving goals and hence the growth of business.

The current issue of *Risk Management Review* aims to support decision makers in the insurance industry when facing new, complex and unforeseen problems. Our first article reviews the importance of risk awareness as well as the tools to counteract risk blindness.

Frank Romeike, Managing Partner at RiskNet GmbH, discusses the subjectivity of risk perception and how to build up risk competence. Next, Andrew Gifford, Senior Vice President and General Counsel & Secretary for General Re Corporation, highlights social inflation as one of the major challenges for the industry and gives advice on how to address causes and symptoms. Finally, Ulrich Geuther, Coach and Leadership Trainer, provides insights how to successfully transform uncertainty into confidence and skepticism into trust – necessary steps to successfully manage change processes in organisations.

We hope you enjoy reading this issue!

Your editorial team

accurately using intuition or statistical methods. We collect data about the causes and impacts of risks. But what are the risks on the other side of the fence? Maybe we spend one per cent of our time in the jungle, and it's here that the unknown risks and big surprises lurk that we mentioned at the start.

Many companies and individuals concentrate exclusively on the risks in their immediate environment and ignore the risks beyond the fence. One of the consequences is that critical and highly relevant scenarios (such as the territorial conflicts in the China Sea, the scenarios resulting from massive public debt, the geopolitical reorganisation of the world, the risks resulting from a social divide or blackout scenarios) become submerged in a dogmatic discussion about the pandemic.

In this context, it is important to understand that risk management for the jungle has to be different from risk management for the village. It would make sense, for instance, for the villagers to use creativity methods to attempt to identify potential (stress) scenarios ("What surprises might we encounter in the jungle? What measures might protect me?"). Here, we also need to bear in mind that risks in complex systems, such as a pandemic, are nonlinear. This means that small disruptions to the system, or minimal differences in the starting conditions, can often lead to very different results (butterfly effect, phase transitions). The same applies to assessing the risks in our highly complex climate system. For these kinds of analyses, the risk management toolbox offers a comprehensive set of tools (see Fig. 2).

Creativity methods in particular offer a wide range of different options for the proactive analysis of potential (stress) scenarios, i. e. for identifying the "critical risks in the jungle".

Systematic underestimation of critical risk scenarios

Mathematician and economist Harry Igor Ansoff proved back in the last century that far-reaching upheavals (e. g. in the

Figure 1: The metaphor of the village and the jungle
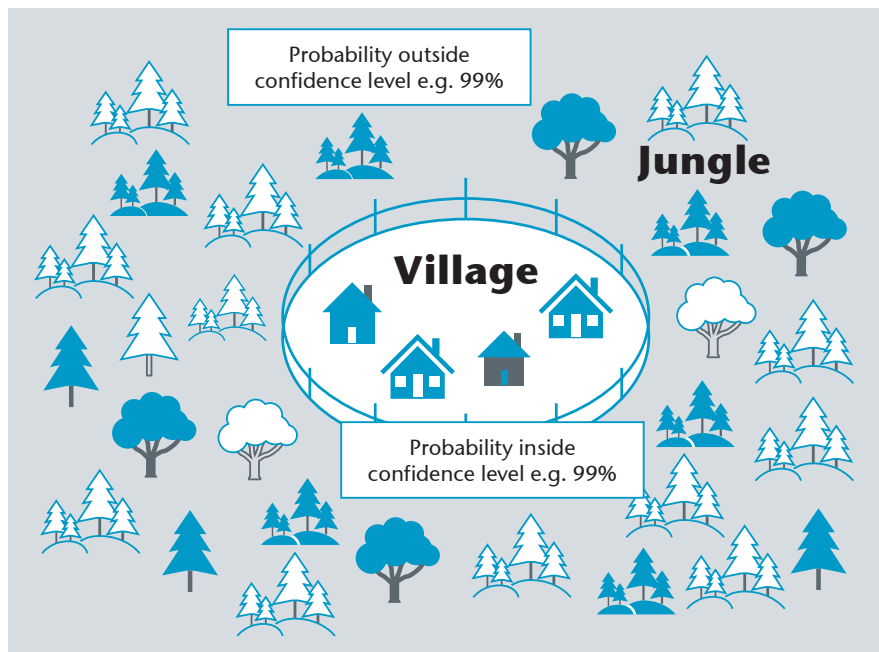
Source: author's representation based on Global Association of Risk Professionals 2008

economic, social and political arena) or catastrophe scenarios do not occur at random but are announced a long time in advance by weak signals (see Ansoff 1975). These signals can be compared with the seismic waves that announce a future earthquake. Those who follow this before-the-fact approach and have relevant signals on their radar and know how to interpret them correctly have an advantage; they can prepare for the future and take preventive measures and will not be overtaken by events.

The challenge with weak signals is that they often consist of rudimentary, i. e. fuzzy and unstructured information, such as feelings or vague indications that risks or opportunities are on the horizon. For example, those vague indications could be based on conjectures that disruptions are on the way, early scientific analyses, technological changes, social or political changes, etc. According to Ansoff, unexpected disruptions only occur because the recipients of these signals do not react to them. To prevent "surprises" we need to spot weak signals in good time. The main requirement for this is an increased awareness of weak signals – because an organisation's ability to react diminishes as the signals become clearer.

Reasons for faulty risk perception and for ignoring weak signals

One reason for organizations' poor risk perception and ignoring weak signals is that people frequently assess risks based on "truthiness", or on what feels true, rather than on facts. While intuition is an excellent advisor in simple decision-making situations, it fails when it comes to grasping and solving complex problems, such as the assessment of critical risk scenarios outlined at the start. In Factfulness, Hans Rosling gave many examples of how we use incomplete information and "intuition" to produce generalisations that do not stand up to any statistical test.

In addition, people are very quick to draw causal connections between root cause and risk; e. g. because the mobile phone mast is just a kilometre from my flat, it must be the cause of my migraine. People do not take into consideration that 99 % of residents don't develop headaches, even though this means that it is not possible to establish a correlation or a causal relationship between the two things. The facts are simply ignored. Everything that makes intuitive sense appears plausible to us. For instance,

Figure 2: The risk management toolbox

Collection methods	Search methods	
	Analytical methods	Creativity methods
■ Checklist ■ Claims database ■ SWOT analysis ■ (Control) Self-Assessment ■ Risk identification matrix (RIM), Risk Control Matrix (RCM) ■ Structured or semi-structured interviews	■ Bow-tie analysis ■ Empirical data analysis ■ Fault tree analysis (FTA) ■ Failure mode and effects analysis (FMEA) ■ Hazard and operability studies (HAZOP) ■ Hazard analysis and critical control points (HACCP) ■ Business impact analysis (BIA) ■ Root cause analysis (RCA) ■ Event tree analysis ■ Cause and consequence analysis ■ Markov analysis (Stochastic processes) ■ Social network analysis ■ Scoring ■ Bayesian statistics and Bayes Nets ■ Structured "What-if" Technique (SWIFT)	■ Morphological methods ■ Brainstorming & Brainstorming 2.0 ■ Brainwriting ■ Brainwriting Pool ■ Mind Mapping ■ Storytelling ■ KJ Method ■ Flip-flop technique (headstand technique) ■ Bisociation ■ World Café ■ Delphi method ■ Business wargaming ■ Deterministic scenario analysis ■ Stochastic Scenario Analysis (Monte Carlo method, Monte Carlo simulation) ■ System Dynamics (SD) ■ Crowdsourcing, Social Forecasting etc. ■ Risk analytics, Predictive analytics
Predominantly suitable for identifying known and obvious risks	Predominantly suitable for identifying future and previously unkown risk potentials (proactive risk managment)	

Source: RiskNet

in 1978 Harvard scientist William Clark pointed out that, in the Middle Ages, people saw a causal relationship between witchcraft and the appearance of ergot fungus, a toxic parasite that affects cereal crops. Risk management in those days consisted of burning witches!

A modern example of mixing up correlation and causality ("spurious correlation") can be found in a recent study published by Dr. Professor Joachim Ragnitz in 2021 on excess mortality in Germany following the COVID-19 pandemic. The author writes that, viewed across all age groups, there is no evidence so far in the pandemic of excess mortality over and above normal

age-structure-related effects (aging population). He concludes from this that the government measures are justified and that they are the cause of the lower mortality rate. This ifo economist asserts this conjecture without any methodological basis, evidence or data analysis.

Serious science and risk management are not based on a presumption of knowledge or truth claims, but on discourse that takes in different views and scenarios. Serious science is not concerned with communicating worst-case scenarios or producing imaginary fear scenarios.

In risk management, too, we need to take note of the fact that risk management practice is shaped by many anomalies – in the assessment of probabilities and the evaluation of risks and, consequently, in the relevance of risk management measures. Awareness of these kinds of assessment anomalies is highly relevant for risk managers in companies.

Risk assessment is based on highly subjective risk perception

The great polymath Leonardo da Vinci once said, "All our knowledge has its origins in our perceptions". Even our

(supposed) knowledge about risks is often highly dependent on our very subjective and consequently extremely diverse perceptions, and is therefore ultimately a process and outcome of highly complex stimulus processing, as I have explained elsewhere (2006). The material that builds our perception of risk is supplied by our sensory organs. A refined biological system converts the tiny electrical impulses from our nerve cells into images and "tricks" us into believing that this represents our reality, when it is ultimately just one of countless possible realities.

The organs for sensory perception (sight, hearing, touch, taste and smell) enable us to perceive risks in a physical and neurophysiological manner. We call this subjective construct "risk". How we ultimately assemble the impressions from our senses, and whether we then perceive the resulting picture as representing a large risk or a small one, or even no risk at all, is largely determined by fashions, opinions, fears, morals, personal experience, upbringing and countless other factors. Something that represents an uncertainty – generating risk for a risk-averse person – creates no uncertainty at all for risk lovers. This means that how we assess risks depends on our attitude to risk and the psychological risk perception that this produces. Even when observing the same risk object, different observers or decision-makers will see different risk situations.

Differences in risk perception can therefore be traced back to the psychological, social and cultural background of each decision maker, his or her communications and psychological make-up and how he or she defines parameters. Empirical and psychological risk research has shown that risk perception is influenced by a whole range of factors, including:

- The educational background of the assessor (expert, layperson)

- The range of experience in terms of the risk to be assessed

- The sociodemographic milieu (conservative, hedonistic, etc.)

- Membership in a particular cultural milieu

- Religion

- Superstition

- Mentality

- Values

- Perceived fears

In behavioural science, intuitive risk assessments are called "perceived risks". As described previously, the risk perceived by the individual is not so much an objective attribute as a subjective and context-dependent construct that is shaped by cognitive and emotional factors.

Overall, we can infer from these results that people's risk appraisals generally differ from what one might predict according to the premises of Subjective Expected Utility theory. In particular, there is no integration of all the available information, i. e. information that could be obtained commercially. In terms of the subjective assessment of probabilities, for instance, March and Shapira (1987) collected the following findings:

- Distorted perception of probabilities: Overestimation of high probabilities and the frequency/probability of rare and desirable events; underestimation of low probabilities and the frequency/probability of frequent and undesirable events

- Reduction of distributions to a few points ("scenarios")

- Preference for (highly context-dependent and imprecise) verbal probability statements over "numerical" probabilities

- Different perceptions of the probability of an event occurring and its results

- The use of unsuitable and incomplete databases to inform probability assessments

In particular, the underestimation of low probabilities, and the reduction of risk assessments to a few (selected and possibly desirable) scenarios, explains the underestimation of painful stress scenarios. This is because risk perception is also directly connected to the way in which humans interpret probability statements. And since human intuition and probability calculations are not very compatible, low probabilities in particular are often misinterpreted. For example, a low probability, such as a "once in every 200 years" event is often interpreted as an event that will not occur until far into the future, and is therefore seen as a risk that one need not worry about just yet. Individuals tend to ignore possible events or their consequences if they believe they will not occur for a long time or perceive them as very unlikely. Ultimately, there are also situations where people admit the existence of risks in general, but deny that they are personally affected (unrealistic optimism).

Probabilistics makes our knowledge more multifaceted and diverse

An unsound approach to uncertainty can be regularly observed in the way risks are assessed in practice. Statistically illiterate individuals select figures and information to fit their own world view. In cognition research, this kind of blind alley is called "confirmation bias". Information and data are selected, calculated and interpreted in such a way that they confirm people's own expectations. This dangerous mix of fact and fiction and methodological incompetence often results in dogmatic disputes (both in science and in politics, and in society as a whole). "Experts" assess risks based on probabilities of occurrence and an extent of damage, as if they were reading the future in a crystal ball. In other cases, they pick out a specific potential scenario (e. g. the worst-case scenario) from a whole range of possible manifestations because it appears to suit their own agenda – something that can be seen very clearly in the scientific discussions surrounding

The way risks are assessed
and dealt with is heavily influenced by psychological phenomena

climate change. This is a presumption of knowledge that does not actually exist.

Toward a more valid picture of risk

Stochastic statements, on the other hand, would provide a range of potential scenarios. We simply do not know what surprises the future has in store, so risks should be assessed as part of an interdisciplinary discourse across a range of potential scenarios. Sound risk analysis avoids false accuracies and individual scenarios and instead offers realistic bandwidths of future developments. In the simplest form, one would assess a worst-case, a realistic-case and a best-case scenario. The world of stochastics and probabilistics makes our knowledge more multifaceted and diverse, but not less accurate, as O. Renn (2019) demonstrates.

In reality, perfect information is never available, so risk analyses can deal with poor data and help to evaluate the information that is actually available in the best possible way.

Stochastic scenario simulation combines expert knowledge (including in the form of intuition and gut feeling) with the power of statistical tools in an intelligent way. This is because statistical thinking leads to greater competence in dealing with uncertainty. Understanding statistics is a necessary skill (and not just for risk managers) for classifying and evaluating the world we live in and making decisions in situations of uncertainty. Indian statistician C.R. Rao hits the nail on the head in his 1995 publication: secure knowledge emerges in a new paradigm of thinking, involving the combination of uncertain knowledge and knowledge of the extent of uncertainty.

Applying these concepts to risk managers, they should be like statisticians in being competent in four areas, which means being able to do the following:

1. Distinguish the essential from the nonessential

2. Deal with risk and uncertainty

3. Structure problems and translate them into methodologically sound models

4. Structure data and translate it into solutions

Conclusion and outlook

In summary, the way risks are assessed and dealt with is heavily influenced by psychological phenomena. It is vital to be aware of the danger of a systematic miscalculation of risks and to implement methods to counteract this hazard. We recommend the recent publication by Kahneman, Sibony and Sunstein in this context. The risk manager's toolbox offers a number of different methods for reducing these systematic distortions. For instance, a large number of independent measurements can massively reduce "noise", i.e. the chance factor in forming opinions.

Being aware of one's own psychological distortions and weaknesses in dealing intuitively with risks is the first step towards improving the maturity of risk management. Dealing with risks is not exactly easy for people, so strengthening the ability to assess and weigh up risks is a key factor in fundamental success for policymakers, society and businesses in an environment characterised by risk.

Against the backdrop of this psychologically based subjectivity in risk perception, it is necessary to develop a set of tools focused on counteracting risk blindness. We need evidence-based methods (for example, to assess and aggregate risks) because intuition too often fails when it comes to taking risky decisions in complex situations – a fact that is often suppressed.

The more we invest in risk maturity, the greater the chance that we will be able to break out of the trap of the risk perception society. Risk competence includes the ability to deal with and anticipate known and also previously unknown risks of the modern world in an informed, critical and reflective manner. It includes, among other things, statistical and heuristic thinking, as well as systemic and psychological knowledge.

Endnote

1. Risks 2 to 5 are: the collapse of the complex financial system, a third world war, climate change and extreme poverty.

Sources

Ansoff, H.I. (1975): Managing Strategic Surprise by Response to Weak Signals, in: California Management Review, Volume: 18, issue 2, p. 21–33.

Clark, W.C. (1978): Witches, Floods and Wonder Drugs: Historical Perspectives on Risk Management, in: Schwing and Albers (Ed.). Societal Risk Assessment: How Safe Is Safe Enough?, Plenum, New York, p. 287–311.

Fischer, K. and Jungermann, H. (1996): Rarely headaches and rarely blindness – Is rarely=rarely? The meaning of verbal frequentistic labels in a specific medical context. Journal of Behavioral Decision Making, 3, 153–172.

Gleißner, W. and Romeike, F. (2012): Psychologische Aspekte im Risikomanagement. Risk, Compliance & Audit, 6/2012, p. 43–46.

Kahneman, D. (2011): Thinking, fast and slow. New York.

Kahneman, D. and Tversky, A. (1979): Prospect theory: An analysis of decisions under risk. Econometrica, 47, p. 313–327.

Kahneman, D., Sibony, O., Sunstein, C.R. (2021): Noise. A Flaw in Human Judgement. Little, Brown Spark, New York.

March, J.G. and Shapira, Z. (1987): Managerial Perspectives on Risk and Risk Taking. Management Science, Vol. 33, No. 11, p. 1405.

Ragnitz, Joachim (5 January 2021): Hat die Corona-Pandemie zu einer Übersterblichkeit in Deutschland geführt?, ifo Institut Dresden…

Rao, C.R. (1995): Statistics and Truth, Putting Chance to Work. Prentice Hall Inc., New Jersey.

Renn, O. (2019): Gefühlte Wahrheiten – Orientierung in Zeiten postfaktischer Verunsicherung, Verlag Barbara Budrich, Opladen.

Romeike, F. (2006): Der Risikofaktor Mensch – die vernachlässigte Dimension im Risikomanagement. ZVersWiss (Zeitschrift für die gesamte Versicherungswissenschaft), issue 2/2006, p. 287–309.

Romeike, F. (2015): Beautiful, Colourful Risk: Benoît Mandelbrot – Remembering the Father of Fractals, in: The Measurement of Risk, Union Investment Institutional, Frankfurt am Main 2015.

Romeike, F. and Stallinger, M. (2021): Stochastische Szenariosimulation in der Unternehmenspraxis – Risikomodellierung, Fallstudien, Umsetzung in R [Stochastic scenario simulation in business practice – risk modelling, case studies, implementation in R]. Springer Verlag, Wiesbaden.

Rosling, H. (2018): Factfulness: Ten Reasons We're Wrong About the World – and Why Things Are Better Than You Think. Flatiron Books, New York.

Swalm, R. (1966): Utility Theory – Insights into Decision-Taking. Harvard Business Review.

Tversky, A. and Kahneman, D. (1992): Advances in prospect theory: Cumulative representation of uncertainty. Journal of Risk and Uncertainty, p. 297–323.

U. S. Nuclear Regulatory Commission (1975): Reactor Safety Study – An Assessment of Accident Risks in U. S. Commercial Nuclear Power Plants, WASH-1400-MR (NUREG-75/014), Washington D. C. 1975.

About the author

Frank Romeike is the Managing Partner at RiskNET GmbH and the author of several standard works in the field of risk management. Under his direction, RiskNET has grown to become the #1 German competence site for risk management and compliance. Earlier in his career, Romeike served as Chief Risk Officer at IBM, where he contributed to the implementation of a global risk management process and directed several international projects. Romeike, who also serves as an adjunct professor at several national and international universities, is one of the world's leading experts in opportunity and risk management.

Social Inflation

by Andrew Gifford, General Counsel & Secretary, General Re Corporation, Stamford

About the article

In the United States, the Property and Casualty insurance marketplace, along with the rest of the insurance industry, is facing a wide range of issues arising out of the COVID-19 global pandemic. However, social inflation continues to present the most significant long-term challenge to Property and Casualty insurers and it appears poised to impact insurers outside of the United States as well.

In the United States, large court verdicts in favor of plaintiffs receive substantial attention. However, litigation is also growing in other parts of the world and so are the plaintiffs' recoveries.[1] A number of European countries are seeing plaintiffs expand the scope of claimed damages, such as prejudice of anxiety arising out of exposure to asbestos in France or plaintiffs in Belgium receiving an award of damages for not being able to start a family. In Australia, securities class actions are increasing and shareholder class actions are now the most common type of class action in the Australian court system.[2] Europe and the United Kingdom are seeing growth in class action-like proceedings as collective redress procedures have been established in such locations as Germany, the Netherlands and the United Kingdom. The European Union's proposed directive on collective redress is likely to further increase such actions.[3]

Causes of social inflation

The causes of social inflation are numerous and the source of much debate among insurance professionals, industry advocates, consumer advocacy groups, and legal professionals. Yet certain common drivers can be seen across the globe and they include: increasing perceptions of social inequality, rising demands for social justice, expanding theories of corporate liability and fewer cost deterrents to litigation.

From a legal and regulatory perspective, the simplest description of social inflation is "legislative and litigation changes which shape and ultimately impact insurers' legal liabilities and claims costs."[4] These transformations have accelerated in recent years and look as though they will continue for the foreseeable future. This conclusion is borne out by the proliferation of extremely large verdicts against defendants. One example is the widely reported multi-billion dollar verdict against a well-known global manufacturer of talcum powder because its product allegedly caused consumers to develop cancer. In a more recent example, a jury in Florida decided that the family of an 18-year-old who was killed in a vehicle crash was entitled to a recovery of $1 billion.

Funding plaintiffs to bring litigation

A rise in third-party litigation funding is often identified as a leading cause of social inflation in the United States, and its growing acceptance and influence in international markets increases the chances for social inflation to take hold globally. All of the various litigation funding business models involve a funding firm that provides working capital to plaintiffs or the law firms representing them.[5] The funding firms, often backed by hedge funds or special purpose investment funds, look for litigants who have large potential claims and require funds to pursue litigation, or they

purchase interest in judgments or legal claims.

While litigation funding is commonplace in North America and Australia, it is being used with more frequency around the globe, including in such locations as Saudi Arabia and South Africa. With collective redress litigation gaining a foothold in the European Union, it is likely that litigation funders will see new business opportunities to support a burgeoning litigation market.

To date, no meaningful legal or regulatory check exists to check the growth of litigation funding or its use in litigation. While a number of legislative measures, which could have meaningfully addressed this concern, emerged in a number of U.S. states in 2020, attempts to require disclosures of litigation funding arrangements have had difficulty gaining traction.[6] To date, few efforts have cropped up internationally to stem the use of litigation funding or at least require increased transparency as to its use. If these trends continue unchecked, plaintiffs will continue to have ever-increasing access to capital to pursue litigation against corporate targets, including the insurance industry.

Trends engendering corporate responsibility for social inequities

As if the Property and Casualty insurance industry did not have enough challenges already, in the United States it has been facing a growing acceptance of a public nuisance theory of liability in litigation relating to opioids, talc, climate change, and more recently, claims of alleged COVID-19 infection in the workplace. The essence of these claims is that a product manufacturer, distributor or employer has engaged in legally permissible activity but has ultimately created or contributed to a public health crisis by engaging in that activity, and therefore needs to be found liable to "fund" the alleged societal cost. Plaintiffs argue that traditional requirements of causation should be disregarded because of the grave social issues involved.

Not only does this approach eviscerate longstanding legal principles, and in many instances, bargained-for contract provisions, but it effectively asks courts or juries to supplant legislators and regulators. Long-established causes of action already exist and allow plaintiffs to seek redress for alleged injuries or for a party's violation of a duty or failure to adhere to a law or regulation. However, bypassing these established legal standards to create an avenue for recovery where none previously existed will harm not only businesses, but the insurers and their reinsurers who provide needed support.

Similarly, in many international locations, the political and regulatory climate is shifting and large corporations are now seen as entities that should bear more risk or responsibility for social inequalities. For example, in May of this year The Hague District Court ordered Royal Dutch Shell plc ("Shell") to reduce its worldwide carbon dioxide emissions by 45% by 2030. The court's decision was based on an unwritten duty of care in Dutch tort law and ordered Shell to take action because of allegedly insufficient climate change policies. In July Shell announced that it would appeal the court decision.

Roles for insurance industry in curbing social inflation

The insurance industry can make significant strides toward reversing the serious threat of ballooning social inflation by:

- Advocating for legislation aimed at the regulation of third-party funders that fuel growth in litigation in order to increase transparency with regard to their backing of litigation around the globe

- Arguing for court adherence to accepted legal principles and not legislating social change through litigation verdicts

- Promoting awareness of the long-term harm of liability presumptions

- Encouraging renewed focus on legal reform measures aimed at curbing outsized or punitive decisions against corporate defendants

Summary

There is no simple cure for the ills of social inflation, but a sustained and consistent effort by insurers, and the advocacy groups they support, can start to address some of the symptoms.

Endnotes

1. Social Inflation: Navigating the evolving claims environment, Geneva Association Report at 9.

2. https://www.advocatecapital.com/about.html

3. https://www.claimsjournal.com/news/national/2020/02/18/295539.htm

4. Social Inflation: Navigating the evolving claims environment, Geneva Association Report at 9.

5. https://www.advocatecapital.com/about.html.

6. https://www.claimsjournal.com/news/national/2020/02/18/295539.htm.

About the author

Andrew Gifford is Senior Vice President, General Counsel and Secretary for General Re Corporation. Andrew oversees the global legal, compliance and regulatory functions for the Gen Re group's insurance, reinsurance and financial services businesses. Prior to joining Gen Re, he was a partner with a global law firm, where he represented clients in a variety of international businesses, including insurance and reinsurance, auditing and consulting services, banking, mortgage lending and real estate. Andrew is a graduate of the University of Michigan Law School.

Change Management for a World in Transition

by Ulrich Geuther, executive coach, trainer and consultant, Lisbon, Portugal

About the article

The following article is aimed at leaders in the insurance industry who want to instigate and successfully implement change projects in their organisations in a time of dramatic upheavals. The author, Ulrich Geuther, is a leadership trainer and coach based in Lisbon, Portugal. He has been supporting change management projects in companies in a wide range of industries for more than 20 years. His summary: Conventional change management is not sufficient to prepare companies for the future.

For some time now, the changes in our lives have been taking place at an unprecedented speed and with global force. The intervals between radical changes in the way we live and work are shrinking all the time. Large parts of the world are undergoing huge change processes under the headings of Industry 4.0, the Internet of Things and the Digital Revolution – and the insurance industry is no exception. In its study on the future of the insurance industry, consultancy firm Deloitte summarises the new challenges as New world, new customers, new solutions.[1]

In order to find new solutions in this new world, many companies will not be able to avoid implementing radical reorganisations. Working out how these reorganisations can be planned and successfully implemented is the task of change management.

However, change management does not have a great reputation and most change projects in companies do not lead to success.[2] The reasons for this are many and varied, and are often specific to the company in question.[3]

However, a more detailed analysis shows that there are six main areas which, if neglected, will prevent the lasting success of change projects.

The following areas require special attention during change processes:

1. **A holistic, integral view of companies**

2. **The importance of change leadership**

3. **Leadership communication**

4. **Winning the support of majorities for change**

5. **Achieving behavioural changes**

6. **Clarifying the relationship between "change" and "preserve"**

This article aims to fill in the blind spots[4] of conventional change management using these key areas. Our analysis is based on models, instruments and tools – borrowed from the fields of philosophy, psychology and change management – which are intended to help company executives keep their bearings in times of maximum uncertainty, and steer their companies toward a successful future.

1. Seeing the big picture – Understanding one's own organisation better

There is no doubt that large sections of the insurance industry are at a critical point in their long and proud history. Carrying on as before appears increasingly impossible. The pressure exerted by digitalisation and radical changes in customer expectations – to name just two of many factors – is becoming too great.

Most organisations are now focused outwards: on the market, customers, the competition and on the social and global developments that present challenges to the company.

But when it comes to reorganising a company so that it can cope with the new challenges, it needs to turn inwards as well – to look at the inner workings of the organisation and consider the following questions:

- How is the company doing on the brink of far-reaching upheavals?

- How are people behaving and how is the whole organisation behaving in the face of the challenges, which are difficult to assess and which are generating this immense pressure to change?

- What is the internal state of the organisation?

- What has the organisation done so far to keep pace with external developments?

- Which of these measures were successful, and which were not?

- Is the behaviour of leaders and employees shaped by confidence or frustration?

When looking inside the organisation in this way, it is vital to take an in-depth look at two different but connected areas:

- The individual people who work in the organisation

- The organisation as a whole, as a collective and as a system

We can obtain a holistic view of the company with the help of a surprisingly simple model developed by American philosopher Ken Wilber. It consists of four quadrants on two axes: "interior-exterior" and "individual-collective". Wilber used these **four quadrants** as the basis for an integral approach to understanding the world.[5]

If we apply Wilber's system to the situation of radical change in which we find ourselves today, we can ask the following characteristic questions in each of the four quadrants:

- What do leaders and employees **think and feel** as individuals in this situation of alarming uncertainty? (Q1: individual-internal)

- **What is the mood** in the company? What do the people in the company (still) believe in and what do they not/ no longer believe in? (Q2: collective-internal)

- How do the individual leaders and employees **behave**? What do they do? What do they not do? (Q3: individual-external)

- **Which structures, processes and rules** are in place to organise the collective behaviour and guarantee that everyone in the company works together? Which of these are increasingly proving unhelpful as the market and customer behaviour change? (Q4 : collective-external)

Figure 1 shows that all four quadrants influence the organisation's change
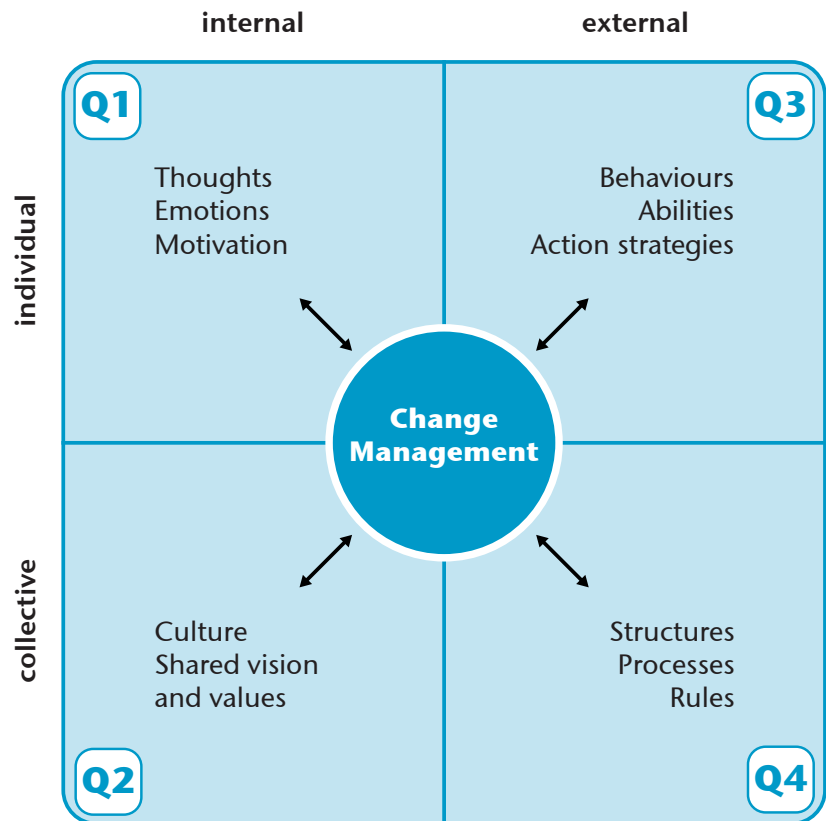
initiatives and that all four quadrants are influenced by the organisation's change management.

To establish the current position of the company, it is necessary to determine all relevant aspects of the current situation, i.e. to carry out a detailed analysis of all four quadrants.

The same applies to the **reorganisation of a company**: Have I taken sufficient account of all four quadrants in my change measures? Are my initiatives for influencing the four quadrants consistent and aligned?

2. Change management and change leadership

The difference between managers and leaders is well known. Whereas managers deal with objectives, strategies, structures, processes and budgets – primarily with a short- to medium-term focus – leaders think and act on a broader scale. They are concerned with shaping the medium- to long-term future. Their points of reference are not monthly, quarterly or annual targets. They attempt to

anticipate developments that lie further ahead, so as to be able to help shape future changes. Their guiding star is the vision and their guiding question is: "What should the company look like in five to ten years time?"

The leaders' task is to guide the organisation into a future that cannot be precisely mapped. Both the destination and the journey hold many unknown factors. The task of leadership is to get the entire company, all the managers and staff on board for this journey and to ensure that:

- Everyone understands where he or she is going.

- Everyone does his or her best to ensure the company can reach the common destination.

To empower the organisation to walk this challenging path, leaders strengthen the self-assurance and motivation of managers and employees, inspire them to deliver excellent performance and make sure that individuals, teams, departments and business units are all aligned with the shared vision.

In the early 1970s, unease concerning a lack of leadership in organisations culminated in the cry, **"We are overmanaged, but underled!"**.[6] This was when the systematic differentiation between management and leadership was born. Today, after thousands of failed change initiatives, it is clear that change management is not enough to shape the future in times of upheaval. Only change leadership gives organisations back their agency, so that they can do more than just react. Change leadership is proactive and constructive. This reminds people in the company that they have an influence on the future and gives them the courage and confidence to face unfamiliar situations.

What do change leaders do differently from change managers?

A look at the four quadrants shows us that change managers pay most attention to the quadrants that describe the visible external parts of the organisation. **Change managers** define the new structures of the changing organisation, start introducing new processes with different procedures, and establish new rules. And they record and measure compliance with the rules by observing the behaviour of the employees.

Change leaders, by contrast, focus on the invisible, internal parts of the company and its employees. What motivates managers and employees and what frustrates them? What values does the company represent? What characterises the company's identity and what do the employees identify with?

If these areas are not dealt with in change projects, or only dealt with half-heartedly, it is no surprise if the projects fail from a holistic perspective.

3. Leadership communication – The role of communication in change leadership

Let's imagine an aircraft on its way from Rio de Janeiro to Paris that flies into a storm over the Atlantic at midnight. When some of the cockpit systems suddenly start showing contradictory

Figure 2: Start with WHY – The Golden Circle

Leadership communication: from the inside out
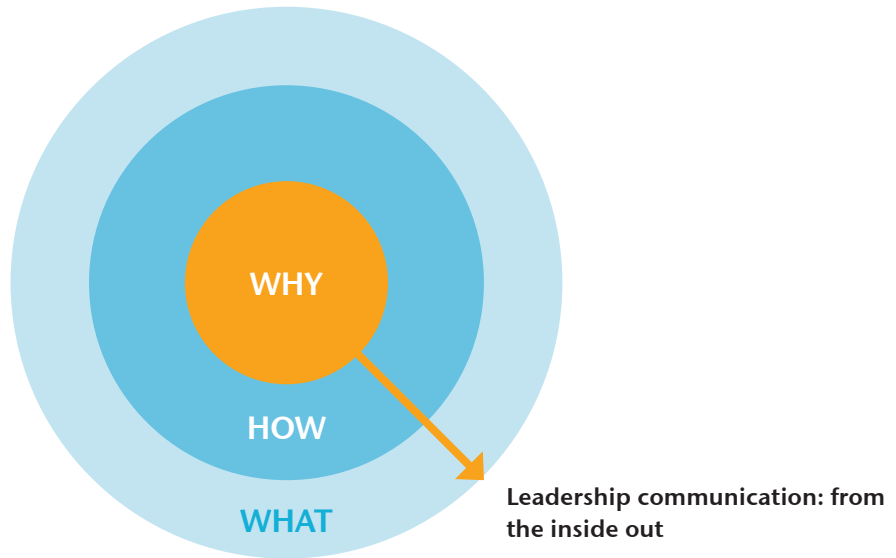
Source: Simon Sinek

readings, and even stop working for a while, the pilots decide to change course and fly to the nearest airport – Praia in Cape Verde. Keeping his voice neutral, the captain informs the passengers of the change of route, naturally without worrying them with details of the contradictory read-outs from the instruments. Then the passengers find themselves at the mercy of forces of nature. There is thunder and lightning and, when the aircraft enters some frightening turbulence, panic spreads. The flight attendants do not manage to calm the passengers. No further information comes from the cockpit. The people in the cabin believe they have been left to their fate and expect the worst.

This, or something like it, is how generations of employees have experienced change projects in their companies. They found themselves at the mercy of an unfamiliar, hostile environment, with no visible leadership to create trust and confidence.

Whereas in "normal" situations, none of us needs leadership because everyone in the company knows what needs to be done, leadership becomes vital when things don't go according to plan, or when a change of course becomes necessary that results in unfamiliar situations. Then, the only thing that keeps us capable of action

is trust in our ability to master the situation that appears threatening. Strengthening this trust and this confidence is one of the primary tasks of leadership. And it relies heavily on communication – leadership communication in particular.

Besides course-setting and taking critical decisions, it is often leadership communication that determines whether change initiatives will be successful or not. So let us take a closer look at its form and content.

Let's start with WHY!

In 2009 Simon Sinek, an American marketing expert, published a book entitled Start with Why: How great leaders inspire everyone to take action.[7] In it, he used a number of current and historical examples to show how influential leaders address others to convince them of their own vision (WHY). And how this type of communication contrasts with day-to-day communication, which focuses on WHAT rather than WHY. Sinek calls his system – characterized by the three focus areas of WHY, HOW and WHAT – The **Golden Circle** (see Figure 2).

What makes communication from the inside out, from WHY to WHAT, so effective? Whereas WHAT focuses only on figures, data and facts, WHY highlights the purpose of the intended change.

WHY describes what drives us; WHAT specifies what is to be done. Both are important, but it is the order in which they appear in communication that makes the difference. Why is that?

Because communicating the WHY does not focus only on the external features of the desired behaviour, but on the motivation and on what is to be achieved – on the purpose of the action.

Here is an example from the introduction of a new quality management system introduced by an international financial service provider:

Starting with WHAT:

WHAT

"From now on, all employees will follow the newly defined quality assurance processes to the letter."

HOW

"To do this, we need, first of all, to change our attitude to quality!"

The problem: This form of communication is not very inspiring! In the case in question, it resulted in some resistance from the employees.

Data and facts are vital for describing specific behaviour, but they don't inspire anyone to act. They have no emotional quality and therefore are only included in our decision making after the event – to provide a rational justification for decisions that we take largely on an emotional level.

Leaders start with WHY because it allows them to directly address the motives that are relevant for action. Leaders inspire others by speaking directly to their emotions.
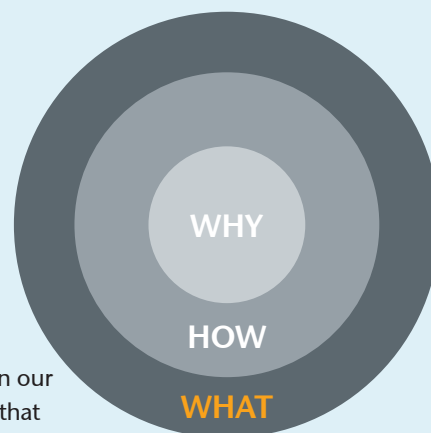
Here is the same example relating to the introduction of a new QM system:

Starting with WHY:

WHY

"Everything we do reflects our efforts to offer our customers extraordinary service. Being excellent brings us success and satisfaction."

HOW

"Our attitude to the excellence of our services makes all the difference!"

WHAT

"We have defined a few rules of conduct. If we follow them closely, we will succeed in achieving extraordinary things!"

Leadership communication that starts with WHY is convincing because:

- It addresses emotions.
- It uses arguments that relate to the purpose.
- It is based on shared values.

This kind of communication inspires managers and staff to mobilise every effort to achieve the change objectives.

Leadership communication that starts with WHY is convincing because:

- It addresses emotions.

- It uses arguments that relate to the purpose.

- It is based on shared values.

This kind of communication inspires managers and staff to mobilise every effort to achieve the change objectives.

The power of stories: What's the word on the office grapevine?

Let's come back to Wilber's four quadrants for a moment. How can we know what the people in the company are thinking and feeling (Q1: Thoughts, Emotions, Motivation)? One possible answer is to take a look to the right, at the neighbouring quadrant (Q3: Behaviors, Abilities, Action Strategies). Here we find people's external aspects, their observable behaviour. And this includes the stories they tell about themselves and about their work, about their supervisors and about the company leadership, but also about fairness and unfairness in the company and about what, in their view, makes (no) sense.

Continuing in this vein: What are managers and employees saying about the new change initiative? And how do they interpret the efforts of the leadership team to respond to the huge pressure to change exerted by the market – as an act of desperation or as a promising way of securing the future?

In order to obtain a clear picture of the state of the organisation, leaders need to listen to the grapevine and the stories being told in the coffee and cigarette breaks: "Did you hear about XY getting a telling-off from his head of department for...Unbelievable!" Or "The Head Office in London has rejected the new customer communication policy we developed. That's the last time I get so involved in a project like that."

It takes a very open mind and a degree of courage for leaders to face up to all these stories, which are an authentic reflection of what the people in the company are thinking and feeling, and to see them as a way of obtaining an authentic inventory of the situation in the company.

However, to make a systematic analysis of the stories that are circulating in the company, it will be necessary to bring in external interviewers who generally use anonymised questionnaires and semi-structured interviews.

The power of stories: Which stories is the CEO telling?

It is impossible to imagine leadership communication today without storytelling. Like the "Start with WHY" technique, storytelling directly addresses people's feelings and thoughts. Additionally, as humans, we are culturally programmed to listen to and tell stories. They are a brain-friendly way of absorbing complex information, slotting it into our existing knowledge and making sense of it. For thousands of years, stories were the way of passing on and developing human experience. There is hardly a better tool than stories for taking in new information – in other words, for learning.

In the business context, the strength of stories lies partly in the fact that they deliver **messages** as well as information: "I believe that this nation should commit itself to achieving the goal, before this decade is out, of landing a man on the moon and returning him safely to the earth."[8] Apart from the information presented in great detail, what made this speech delivered by the American president to Congress and the nation so effective – and turned it into a message – was the way it fitted into American history and strengthened the American self-image. This was the message:

- Space is our new frontier.

- We are in charge of our own destiny and will not be dictated to.

The message succeeded in overcoming the scepticism of the majority of Americans and allowed the government to create a huge budget for the space programme. The message found its mark and the vision of being "first" turned the moon landing enterprise into a reality.

Many sources mention **vision** as a key element in revolutionary change projects.[9] And storytelling is the most effective tool for communicating the vision and the stories associated with it in new variations.

However, it is by no means easy for leaders to gain and retain control over the narratives that circulate in a company.[10] This is because, as shown above, a large number of stories are already in circulation. Which one is told the most often? Which one is met with the greatest acceptance?

If leaders want to tell compelling stories, the following questions deserve special consideration:

- To what extent can the employees identify with the "'heroes" of the stories?

- Do the people in the organisation share the values of the protagonists in the stories?

- Do the destination and path of the hero's journey (see box) resonate sufficiently with the employees so that they are prepared to make heroic efforts?

- Do my stories succeed in bringing people together behind the company and uniting them for the forthcoming actions?

Joseph Campbell's research is seen as pioneering in the field of storytelling.[11] He discovered that all cultures have created myths and stories according to an identical pattern, which can be summarised very briefly as follows:

a. The ordinary life of a person like you or me is interrupted by an event that will change their life forever.

b. The future hero resists their calling, but in vain.

c. Eventually the future hero faces the challenges and travels to an unfamiliar land to fight the threat.

d. The future hero realises that the enemy is practically unbeatable and is forced more and more onto the defensive until all appears lost.

e. But, as if by a miracle, the hero, with the help of energetic allies who come running to his/her assistance, turns the situation around and ultimately achieves victory over the formidable enemy.

f. Then the hero returns home with the knowledge and experience gained from this victory and teaches others what was learned on the journey.

When we introduce storytelling in change projects, we often find that managers and employees respond with "That's exactly what happened to us when we overcame all the obstacles and...succeeded!"

What leaders need for a powerful story (following the template of the hero's journey) are the following five elements:

- **Setting** – Where the story takes place (e.g. team or department)

- **Plot** – What happens in the story (e.g. Team A develops a new process for simplifying customer contacts)

- **Characters** – Who are the main people (e.g. hero from Team A, adversary from another department, allies of both)

- **Conflict** – What the battle is about (e.g. the conflict between the established rules in the organisation and the new requirements of customer support)

- **Theme** – What it's actually about, the moral of the story (e.g. the simplification of processes or stronger customer loyalty)[12]

With these elements, it should be possible to tell compelling stories about the company's change activities, but especially about the actions of the managers and employees who have committed to implementing the agreed changes. They are the key figures in the change process and are therefore the preferred protagonists in the stories that will be told.

4. Building majorities for the desired changes

It is obvious that top management should lead from the front when it comes to change initiatives. But how does the leadership team get the rest of the company to fall in behind it?

People say that implementing change is difficult. And there seems to be a consensus among most company executives that people are naturally averse to change. Is that true?

Well, from our own experience, we know that we, ourselves, and others, too, have nothing against change, provided it is positive for us and we have a choice of whether to go along with it or to reject it.

So where does the broad resistance to change come from that we have observed in countless change management projects? It comes from the two reasons mentioned:

1. The change process was not the idea of the employees and was not their decision; rather, they were the ones affected by the change.

2. The majority of those affected by the change process were evidently unable to associate the impending changes with any benefits for themselves.

The extent to which companies involve employees in planning, developing and implementing change processes varies from one company to the next and depends heavily on the culture of the organisation.

Ultimately, however, for the measures to be successful, the aim is always:

- To identify potential reservations regarding the changes

- To reduce the reservations

- To build a willingness to change

- To constantly strengthen this willingness

Increasingly, people are becoming convinced that there is another key factor that plays a vital role in the change process: **the coalition of the willing**.

According to this view, a starting point for designing a successful change programme would be to identify the managers and employees who fulfil the following two criteria:

A. They are open to the necessary changes.

B. They have an influence in the company, especially on an informal level.

This opens up a new space outside of hierarchies and the company's organisation chart. We are stepping behind the scenes, entering the invisible place where the company's culture is formed (Q2: Culture, Shared Vision and Values). This is the space where, according to estimates, around 75 % of all communication within the company takes place.[13]

We are looking for the people who have always been one step ahead. The ones who have long practised inter-departmental collaboration through informal networks. And we are looking for the nodes in these informal networks – the men and women in the organisation who have large numbers of connections and therefore have an important influence on the opinions of the employees. Getting these people on board for the change project would appear to be essential.

These people can spread the vision. If they are involved in the change initiative, others will follow.

If they push ahead with the change, the project will gain momentum.

It may take a while for the entire organisation to start moving. According to the stages defined by Rogers for the diffusion of innovation, once the Innovators are engaged, the Early Adopters need to be set in motion.[14] At the transition to an Early Majority there is, according to this theory, a **tipping point** which generates a momentum that drives the entire system in the new direction. Then the Late Majority gradually comes on board, too.

There are two obstacles that have to be overcome to establish a majority in favour of the desired changes:

1. The key individuals who meet the criteria above have to be identified. Close observation and targeted questioning can help with this.

2. Leadership communication directs the attention of the key players to what can be achieved through the changes, and creates alignment between the vision, values, strategy and aims of the change project.

This takes place with the help of storytelling and a narrative that links the organisation's past, present and future and presents them in the context of a success story.

Once the company has succeeded in winning over highly connected, influential employees to back the changes, the actual change process begins. The idea at this stage is to set up new structures and processes, to try out and continue new processes (Q4: Structures, Processes, Rules) and to tackle new tasks, but also to carry out old tasks in new ways.

This is where a company establishes the elements that will ultimately determine whether the change initiative will be successful or not: **new and different behaviours** (Q3: Behaviors, Abilities, Action Strategies).

5. Behavioural changes: The goal of all change projects

What is the point of a vision with which large numbers of people identify, and what is the point of communicating a WHY with values shared by everyone if, at the end of the day, too few people demonstrate the desired new behaviour? The failure of a large number of change initiatives is a stark reminder that there is no automatic link in organisations between understanding the need for change and altered behaviour.

Let's take another look at the four quadrants. People's behaviour (Q3) is the result of influences from the other three quadrants: people's inner world (Q1: Thoughts. Emotions, Motivations), the external conditions that make up their environment (Q4 : Structures, Processes, Rules) and the internal world of the company culture shared by all managers and employees (Q2 : Cultures, Shared Vision and Values), which is difficult to access.

So what is the most effective way to influence human behaviour? The answer is surprisingly simple. The most effective way is:

- By describing the desired behaviour precisely and consistently affirming it

- By describing the (now) undesirable behaviour precisely and consistently imposing sanctions on it

However, people may be prompted for many reasons – motives, objectives, development history, current state of mind, external pressure – to behave in a certain way. Ultimately, in most situations, behaviour that is consistently reinforced both internally and externally, will win through.[15]

The most important form of external reinforcement has been found to be attention and recognition by others. Two of the most effective internal reinforcements are behaviours that are expressly aligned with the individual's own values, and achieving challenging, self-defined goals.

Here are a few rules for describing and reinforcing new behaviours:

1. The new desirable behaviour must be defined in very concrete, specific terms. It is by no means sufficient to say that Department A and Department B need to communicate more with one another.
   Who needs to communicate when and how often via which channels about what?

2. When people demonstrate the desired behaviour, they must be consistently rewarded.
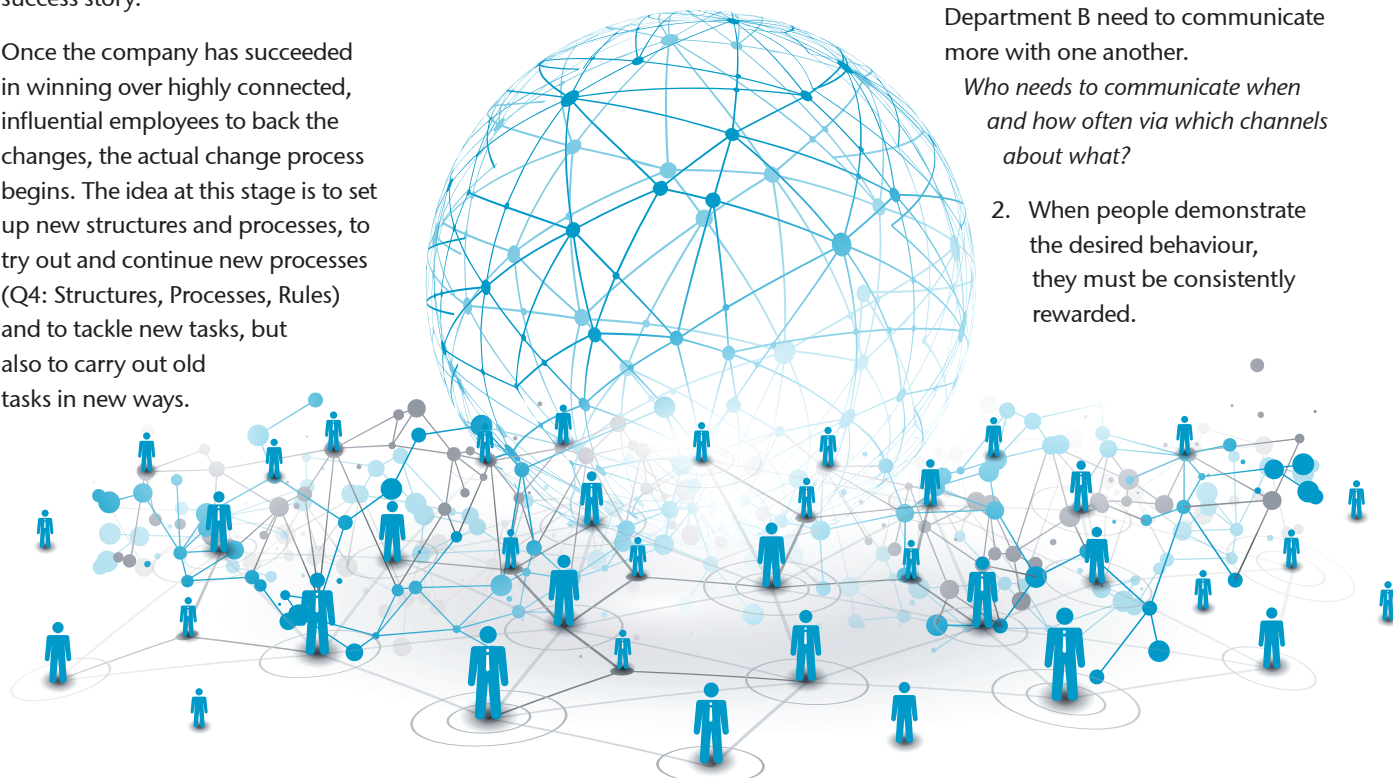
For the desired behaviour to spread, it is communicated to others as a successful example of change.

3. The old, undesirable behaviour must no longer be reinforced!
If I want more cooperation in the sales team, it makes no sense to continue focusing only on individual bonuses.

4. The company must keep a close eye on whether there are contradictions between behaviour that is rewarded and the behaviour that is desired.
To guarantee faster responses to customer enquiries, it is necessary to define the new processes in such a way that faster output can be achieved. It may be that the old authorisation loop systematically prevents faster responses.

5. The organisation and its leaders must consistently ensure that desired outcomes and actions are aligned.[16]
From vision, values, strategy and objectives to the newly defined structures and processes, all employees must be able to see that this is a consistent, meaningful undertaking – a journey in one direction, an endeavour where everyone is pulling together.

It will be the coalition of the willing who start to adopt the new behaviour first. Positive recognition of this behaviour (reinforcement) and systematic dissemination (storytelling) of meaningful (Start with WHY) success stories relating to this behaviour will ensure that acceptance of this behaviour rises within the company and can now be copied by others as well. Targeted course-setting (Q4 : Structures, Processes, Rules) by management combined with effective leadership communication will now create the conditions for the new behaviour to go "viral".

However, there is one area that we have not yet addressed that is known to support the myth that people don't like change: **fear of loss**.

We therefore conclude our reflection on successful change management and change leadership with a tool that can take the specification of desired changes to a new level. The strength of

Figure 3: Wheel of Change[17]
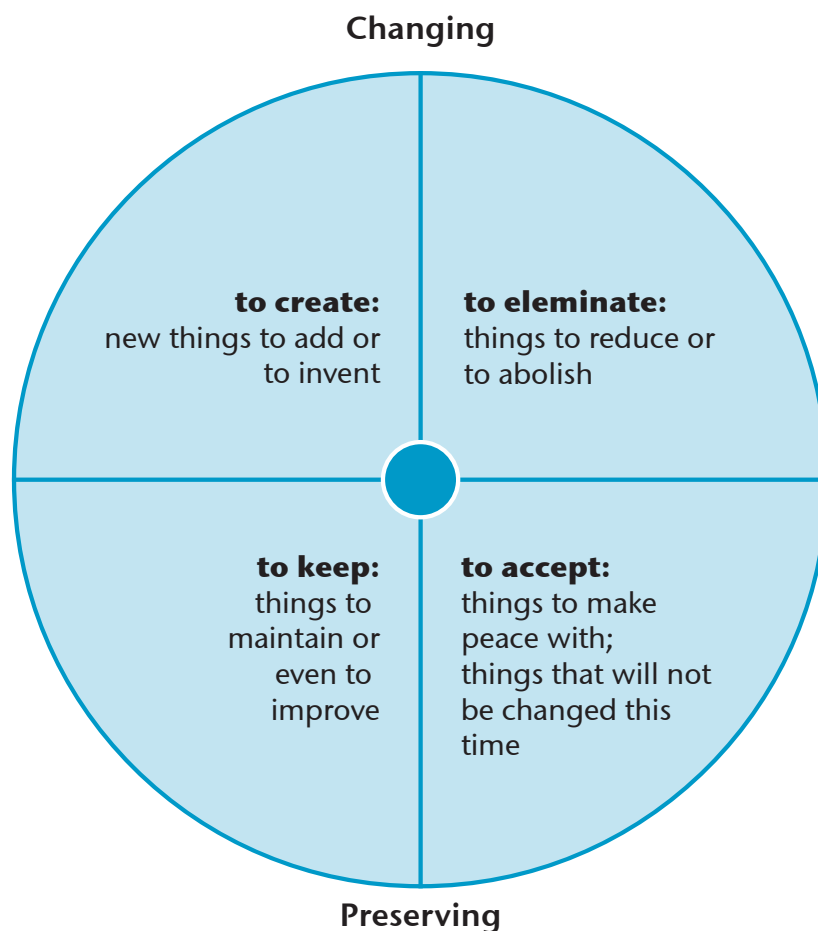
Source: Marshall Goldsmith.

this model is that it also takes account of fears of loss – a particularly important aspect in relation to expected changes. This extremely practical tool is called the **Wheel of Change** and was developed by Marshall Goldsmith.

6. The Wheel of Change – What exactly do we want to change and what do we want to preserve?

One aspect that is undoubtedly a factor in the failure of many change management projects is that the employees often overestimate the amount of change, while underestimating how many of the existing values, attitudes, objectives and behaviours will continue to be important. Since numerous studies conducted on human behaviour in decision-making situations over recent decades have shown that the fear of losing something valuable is far greater

than the joy at gaining something new and equally valuable,[18] appreciation of the things that will be preserved and that are to retain their value despite all the changes takes on a particular importance.

As with the description of specific desirable and undesirable behaviours, **clarity in the descriptions** in the four segments of the Wheel of Change is vital.

Marshall Goldsmith, who originally developed this model for individual coaching with top executives, also sees an area of application for the Wheel of Change in teams, and even at organisational level. When used carefully, the model can achieve breakthroughs, especially at company leadership level, if one can succeed in identifying and offsetting the fears of loss experienced by top managers.

The coalition of the willing
start to adopt the new behaviour first.

I believe the tool is practically unique when working with teams. It allows teams – both agile and other types – to acquire a firm, shared understanding of the change initiative within a manageable time frame.

The questions that bring us greater clarity and certainty in change projects are:

- What is the change initiative about? *(Concerns the overarching objective and all four segments of the Wheel of Change)*

- What do we definitely not want to lose? What are we quite deliberately going to continue to do as before or improve? *(Preserving: to keep)*

- What would we like to change that is not part of this project (and will have to wait)? What things will we ultimately have to make peace with because we can't change them? *(Preserving: to accept)*

- Which changes that we want to achieve are of a quantitative nature, i.e. more of what we already have? *(Changing: to add)*

- Which changes represent real innovations, i.e. things that we have never done in this way before? *(Changing: to invent)*

- Which headaches, things that have been annoying and/or obstructing us for a long time will we finally be able to abolish, or noticeably reduce, during the change project? *(Changing: to eliminate)*

A particularly promising approach is to integrate the Wheel of Change after developing a vision for the future and setting important development goals for the coming years. Then all management levels can work through their Wheel of Change, starting with the board of directors and moving on to the operative management team and the individual teams within the organisation. This process increases clarity about what is to be changed and what is to be preserved, which significantly increases acceptance of the change initiatives.

Concluding remarks

The history of humankind shows that people can generally cope quite well with uncertainty, in the sense that they use very creative methods to find solutions to situations that often appear hopeless. Psychology teaches us that in crisis situations there are essentially two factors that count:[19]

- Trust in one's own strength

- Support from others

This results in the following requirements for organisations' success:

- To find solutions in confusing situations, it is helpful to involve many different people with their different points of view.

- People's confidence depends in large part on their conviction that they are able to make an important and sensible contribution to achieving common objectives. If people see themselves only as an object or victim of imposed changes they will stop contributing.

- Our confidence grows as others place their trust in us. And we will need a great deal of confidence to survive the challenges of the present and the future.

- Leadership takes on a special role on the voyage into a barely known future. Its main task is to ensure maximum safety on the journey into the unknown. We trust the leaders who look after us and are able to communicate convincingly that the destination we are aiming for is worth reaching.[20]

Keeping all this in mind, leaders should be able to successfully transform uncertainty into confidence and scepticism into trust, so that disruptive change projects can be tackled with self-assurance.

Endnotes

1. See Deloitte: A demanding future. The four trends that define insurance in 2020.

2. See e.g. Ron Ashkenas: Change Management Needs to Change. Harvard Business Review April 2013: "… most studies still show a 60%-70% failure rate for organizational change projects — a statistic that has stayed constant from the 1970s to the present."

3. As a consultant, the author has supported a number of change projects that ultimately failed because the head office changed its strategic focus in the middle of the project, thereby rendering the visions developed by the national branch offices obsolete.

4. "The blind spot in human vision refers to the receptor-free area of the retina where the optic nerve leaves the eye…However, even in monocular vision the blind spot is generally not noticed because of perceptual filling-in of color and texture from the surround" (Ramachandran, 1992a, Walls, 1954). Source: https://www.sciencedirect.com/science/article/pii/S0042698906003932

5. On the search for a "unifying theory" in philosophy, the American philosopher Ken Wilber made an astounding discovery: all previous attempts to describe the world can be categorised into one of these four quadrants. This means the question of which theories are right or truer than the others cannot be answered, if only because each of these philosophies describes only one aspect.

6. The 1970s was another time of upheaval. Some authors even see the end of the 1960s as the end of the management era. Niels Pflaeging, for instance, writes about the end of management in the sense of a division between thinking and doing, between planning and execution – an approach put forward by Frederick Taylor at the start of the 20th century that ultimately became common practice in companies in all industries. See Niels Pfläging and Pia Steinmann's "Organize for Complexity: How to Get Life Back Into Work to Build the High-Performance Organization (BetaCodex Publishing Book 1) (English edition), 2014.

7. Simon Sinek, Start with Why: How great leaders inspire everyone to take action. Portfolio Penguin 2009.

8. J.F. Kennedy's speech to Congress on space exploration, 25 May 1961. The moon landing programme enabled the Americans to catch up with the Soviet Union and win the space race.

9. See e.g. John P. Kotter, The 8-step process for leading change. Step 3: Create a vision for change. Step 4: Communicate the vision.

10. Narratives are stories about how we can understand reality, but also about who we are or who we want to be.

11. Joseph Campbell: The Hero with a Thousand Faces. New York 1968. 2nd edition.

12. See also the very entertaining rap by flocabulary on the 'five elements of a story': https://www.youtube.com/watch?v=e-g1gbyVGG8

13. See Leandro Herrero: Viral Change. Chapter entitled "Behind the curtains of the organisation chart". meeting minds 2006.

14. Everett Rogers: Diffusion of Innovation. New York 1962.

15. In behavioural psychology, reinforcement refers to the internal and external consequences that can shape and sustain a certain behaviour. We differentiate between positive reinforcement (i.e. consequences that reward), punishment, and negative reinforcement. Negative reinforcement of a behaviour is a reaction to a particular behaviour that is less negative than it used to be. For instance, if instead of submitting a four-page report, you now only have to send a short summary of the key points to your supervisor, this has the effect of a negative reinforcement. Punishment is not an effective shaper of behaviour. The only thing that punishment can achieve is the suppression of undesirable behaviours. But this does not guarantee that they will be replaced by the desired behaviour.

16. Ibid, at Note 13.

17. Marshall Goldsmith is one of the most famous leadership coaches in the United States. The Wheel of Change model can be found in a number of publications, including in 'Triggers – Sparking positive change and making it last.' London 2015 (co-author Mark Reiter).

18. See Kahneman, D. & Tversky, A. (1979). 'Prospect Theory: An Analysis of Decision under Risk'. Econometrica. (47)

19. See resilience research: a stable, supportive social environment and sufficient belief in one's own efficacy are two key factors for resilience. For self-efficacy, see Albert Bandura: Self-Efficacy: Toward a Unifying Theory of Behavioral Change. Psychological Review, 1977, 84.

20. … or that there is no alternative.

About the author

Ulrich Geuther is an international leadership trainer and coach based in Lisbon, Portugal. He has been assisting leaders and organisations with change projects for over 20 years.

The people behind the promise®

GenRe | Business School

genre.com | genre.com/perspective | Twitter: @Gen_Re