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# Editorial: The risk equation: thinking more creatively about organisational effectiveness

## Introduction

Back in 2014 when we launched this journal we argued that senior managers needed to better analyse the purpose, strategy, business model and performance of their organisation and understand how people could add value to it (Sparrow and Cooper, 2014). We were still in the wake of the 2008 global financial crisis, when it was already evident that we were entering an era when growth would be more constrained – though little did we know in 2014 just what was soon in store for the world of business! We argued for four priorities.

- (1) We presented a potted history of the fields of organisational effectiveness and human resource (HR) management to remind us – whether we are researchers, senior managers or policymakers – that we need to beware of that dreaded word “context”. Contexts change. History repeatedly shows us that as “events” happen then the solutions that were previously assumed to work well may suddenly seem strangely out of time.
- (2) We reasoned that it was time for HR strategists to start to “look out” again and to re-examine the changing nature of work and its place in society. We chose the “organisational effectiveness” as the academic umbrella with good reason. For organisations to remain effective we said they needed to change the paradigms that drove them – change some of their assumptions about performance drivers such as globalisation, innovation, productivity, customer centricity and operational excellence.
- (3) We noted that our science of course needs to be evidence-based, but often this evidence will evolve and at any one time we might have to take what we feel to be our most informed option. As such, our thinking whilst still being underwritten by theoretical thinking invariably needs to be less purely theoretical. In periods of flux, we need strong science, because ultimately we have to pursue one solution or another and it is better that the choice be informed. However, our conclusions need to be more reflective and relevant to what we call real-world problems.
- (4) Finally, we argued that to truly understand and better advise on the performance challenges ahead, research needed to become more cross-disciplinary. Many fields have useful things to say. The time had come, we felt, for loosening up of the strictures that often limit what we can and cannot say as academics. We needed to encourage far more dialogues across fields, more cross-fertilisation of ideas and borrowing of lenses through which to comprehend the complex problems we face. As HR academics, we could learn many things from those who studied risk and crisis management, decision sciences, supply chain management, operations management, consumer behaviour, innovation, strategic management and political economy. These fields too were beginning to understand the central challenge that effective (or ineffective) people management presented for their own analysis.



Were we right to launch the journal? In these first ten years of the journal, have we witnessed continued levels of high flux? Do organisations still face potentially existential or mission-defining challenges? Will the actions of people – their mindsets, culture, values, attitudes, skillsets and capabilities – still prove central to the success or otherwise of organisations? How relevant is our original agenda?

We believe that the answer to all these questions continue to be a resounding “affirmative”. Consider what the last 10 years have witnessed. Let us look at what has happened since the launch of the journal against our four priorities.

### **A shifting global context**

There was a British Prime Minister of the late 1950s and early 1960s (known to people of our age!) called Harold Macmillan. He had successfully cultivated a public image of charm, aided by some good luck and a period of economic consensus. However, when asked what was the greatest challenge for a statesman and what he feared most in politics he answered “. . . events, my dear boy, events!”. We think, hand on heart, that the “events” that we have all experienced in the last ten years have been beyond anything that we anticipated when the journal was launched in terms of scope and severity.

If we were to try and characterise recent changes in terms of how we think about organisational effectiveness, perhaps the answer would be to say that we no longer think in terms of efficiency, but only really in terms of resilience. Although with hindsight it is now evident that the global economic crisis of 2008 had already set off a series of shock waves that were slowly working their way up into a tsunami, back in 2014 when the journal was launched much of our thinking seemed stable. Modelling made sense. Models were not simply there to be contested. Many management theories and assumptions were based on the expectation that there would be ongoing globalisation, and that this was automatically a good thing. Yet, here we are in 2023, now experiencing continuing waves of deglobalisation. The intervening years have seen a rise of populism, Brexit and the imposition of greater border controls, President Trump’s “America First” policy, then the COVID-19 pandemic with its multiple responses and now sadly even a return of war in mainland Europe.

Even before the ravages of the COVID-19 pandemic a reshaping of globalisation was already taking place as seen through the policy response of key states ([The Economist, 2020](#)). The return to protectionism at first did not happen in an obvious way after the financial crisis. However, well before the pandemic, trade and foreign investment had begun to stagnate in relation to gross domestic profit (GDP). The levels of growth seen in the 1990s and 2000s had not re-established themselves, and as a proportion of GDP neither the volume of global trade nor the level of foreign direct investment (FDI) returned to their peak of the 2000s. The costs of transport also stopped decreasing. Nations and regions were already seeking to protect their own economies from the negative effects of globalisation and to enhance their own competitiveness and power. Then in 2018, as part of the Sino-American trade war, worries about blue collar jobs and concerns about China’s autocratic capitalism led to a questioning, for right or for wrong, of many international alliances, certainly in the USA. At the same time the EU had declared that China was a strategic competitor. Then in 2020 came the COVID-19 pandemic which has wrought further havoc with trade.

Together these changes have been transmitted to the size, shape and location of global organisations ([Brewster \*et al.\*, 2023](#)). When the journal was launched Chinese firms already made up 20% of the Fortune Global 500, while the share of US and Western European companies had dropped from 76% in 1980 to 54%. It seemed that emerging markets would continue to become more important and Brazil, Mexico and India were touted as being the likely source of future global firms. Yet within these last 10 years – with much of this change actually taking place prior to the Covid pandemic – the narrative had shifted away from

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Europe and emerging markets to the ascendancy of US and Chinese global firms over other parts of the world. In 2018 China supplied about 42% of the world's exports of personal protective equipment. Italy found that three-quarters of its imported blood thinners came from China. Japan found out that 60% of the ingredients for antibiotics were imported from China. All of Europe's supplies of paracetamol derived from China.

The implications of this changing global business context? Well, today organisational effectiveness has to be viewed through the lens of a new set of economic and business rules that were not anticipated back in 2014. Regional trade blocks now consider how they can shape procurement rules to mitigate the risks of "strategic vulnerability". Under calls for more "strategic autonomy" we see national and regional stakeholders reasserting their priorities over the previous economic logics of reduced costs of production, distribution and logistics through global dispersion. Organisational effectiveness now sees major and small organisations alike asking questions about the location of important or strategic production or the vulnerability of supply chains to production bottlenecks. India has proclaimed that a new era of economic self-reliance has begun, Japan's stimulus response is linked to subsidies for firms that have repatriated factories and the EU talks of "strategic autonomy". Countries representing three fifths of firms of the world's GDP have tightened their rules on foreign investment. They impose requirements on companies to source key intermediate products from several countries, or to establish back up strategic agreements with companies for their assembly lines so that they can change quickly in a crisis. They create lists of strategic goods for which domestic production will be required, or encourage multinationals to build new factories within their domestic borders. In response, organisations now pursue strategies of vertical integration in order to control their whole supply needs. They adopt strategies of dual-sourcing by reconfiguring supply chains under a China+1 strategy, moving more manufacturing outside China to other Asian countries and creating new clusters of production. They are making subsidiaries more resilient and self-sufficient and are trying to establish longer-term contracts and move from "just-in-time" to building up "precautionary inventories". Suddenly we see significant shifts in the location of international business, regional, political realignments and adjustments to a deglobalizing and post-pandemic world, coupled with increasing pressure for organisations to operate in ways that are environmentally sustainable, with closer-to-consumer production.

### **Infectious ideas: re-evaluating the world of work**

Second, we reasoned, it was time for HR strategists to "look out" again and re-examine the changing nature of work and its place in society. The Covid pandemic on the one hand has served as an accelerant of many pre-existing business, technological and social changes (such as the use of distance work, use of automation, technology and artificial intelligence to deal with labour challenges, the shift from cash to digital transactions, the change in use of high streets and so forth) by bringing forward many business and investment plans in these areas. Yet on the other hand it also generated many revolutionary changes in the world of economics, business and national mindset.

In terms of organisational effectiveness the Covid pandemic seems to have "reweighted" many of our previous assumptions. First, it seems to have introduced a number of what are called "sticky behaviours", i.e. new behaviours in response to a situation that subsequently become permanently embedded. These can perhaps already be fathomed. Second, and more a question for the future, there is a sense that rather like The Great Depression of the 1930s which left a "mental imprint" across the generation that experienced it, shaping their subsequent attitudes to debt, wealth and society, the Covid generation have likely seen things that will shape their future attitudes and will come back to guide their future expectations. This might be good or bad news for organisations and governments.

### **Evidence-based but evolving action**

Third, whilst our science of course needs to be evidence-based, often the evidence will evolve (sometimes rapidly) and at any one time we might have to take what we feel to be our most informed option. We kept a diary of events during the Covid pandemic in the knowledge that one day we would view the sensemaking of the time through the lens of history. Here are just a few entries from those first few months. Events were stark and they came rapidly. Cataclysmic changes were seen in the world of work and the impact on the global economy. Much policymaking had to be on the hoof. Some organisations were effective. Others were not.

By 10th February 2020 there were still only 1,000 cases reported worldwide – the number of cases in countries such as the USA, France, the UK, Germany, Australia were still in the low teens with only two deaths outside China. Yet within just two weeks, by 23rd February 2020 the French Finance Minister classed it as an emergency, arguing that some technologies were fragile and could suddenly be bought by foreign competitors at a low cost. The time had come to accelerate a shift in industrial policy towards making key goods within national or EU borders, in order to strengthen sovereignty in strategic value chains. The German cabinet approved new laws to prevent foreign takeovers of medical companies. European countries conducted a series of “inventories of dependence” on China, and investment screening reviews were started in France, Germany, Italy and Spain.

It was only on 11th March 2020 that the WHO officially called the outbreak a pandemic. By 17th March 2020, global stock markets had seen record levels of volatility with the five biggest one-day points falls happening in less than a month. A key measure of stock market volatility, known as the “Fear Gauge”, surged to a record high at the time. By 19th March 2020 deaths worldwide had grown to 10,000. In the USA the Cybersecurity and Infrastructure Security Agency (CISA) provided strategic guidance developed an initial list of “Essential Critical Infrastructure Workers” to help officials “protect their communities, while ensuring continuity of functions critical to public health and safety, as well as economic and national security and determine the sectors, sub-sectors, segments, or critical functions that should continue normal operations”. The same day, the UK Government published its list of critical workers (called key workers) who could send their children to school during the pandemic so that they could still work. If ever it needed saying, it seemed that suddenly there was more to modern economies than just protecting the banks. Overnight the notion of “talent” was replaced by the notion of “key workers” who the newspapers were calling “heroes of the frontline”. The list of jobs? Health and social care; education and childcare; key public services; local government; food and necessary goods distribution, sale and delivery; public safety and national security; those involved in air, water, rail and road transport; oil, gas, electricity, civil nuclear, chemicals and water utilities, communications and financial services provision. A new word entered our vocabulary. Many workers could be “furloughed” (itself a derivation of the German *Kurzarbeit* scheme, which had supported 1.5 million of its workers in the 2008 financial crisis).

By 26th March 2020 the US Senate had passed a \$2 trillion coronavirus disaster aid bill. Following on from two previous bills signed that month, it represented the largest economic stimulus in American history, staking nearly half of the \$4.7 trillion that the US government spent annually at the time. By 5th April 2020 the number of deaths had increased by nearly a factor of 10 again. More than 95% of Americans were under “stay-at-home” or “shelter-in-place” orders and 16.8 million Americans filed for unemployment benefits in the first three weeks of the lockdown – or around 10% of the workforce. One-fifth of the workforce was on some kind of lockdown. The country was experiencing the highest number of job losses since the Great Recession, ending the longest employment boom in the US history that had started in late 2010. By mid-May 2020 the Fed had bought roughly \$2.5 trillion in securities bought since mid-March in an attempt to keep the global market for US debt functioning. Similar moves were seen worldwide.

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The scale of interventions was unprecedented and represented a fundamental change in the global economic system and regime. It had three strands: *huge government borrowing which was potentially limitless* (by mid-2020 the IMF predicted that rich countries would borrow 17% of their combined GDP in a single year to finance \$4.2 trillion of spending and tax cuts just to keep their economies functioning); more *Money printing* (American, British, Eurozone and Japanese central banks implicitly financed this debt by creating \$3.7 trillion new reserves of money to finance the buying of government debt, ensuring that inflation initially remained low even as public spending soared); *the state acting as the capital-allocator-in-chief* (for example, in the USA the Fed and Treasury moved into financial markets to buy up bonds of firms and acted as the back stop to 11% of America's entire stock of corporate debt). Where lay organisational effectiveness in this rapidly changing world?

Ten years ago we were used to questions about whether and how specific economies, industrial sectors and major organisations would cope with globalisation. We asked questions such as how should digital rules be set along with future business norms over areas such as privacy? Where and how should corporate taxes be paid? Consider the questions we are now asking. How might whole regions cope with an ever more fragile distribution system? What happens if the supply lines of key foodstuffs or medicines from abroad are interrupted? Can we trust the use of artificial intelligence or the conduct of genetic research? How will climate change impact all of these?

Indeed, as we write, the newspaper headlines warn us daily about a return to a hot war in Europe, no longer just a cold one. We see a reordering of world, recently reinforced by a return to antagonistic world order and the rivalry of large economic blocks. Climate change moves rapidly from being an abstract prediction of models to lived experience, with scientists now saying there is a 66% chance that the politically as well as physically damaging 1.5 °C rise in global temperatures will be breached as soon as 2027. We think that we should assume that we shall continue to live in a world of high flux.

### **Seeking cross-disciplinary understanding**

Fourth, and finally, we argued that to truly understand and better advise on the performance challenges ahead, research needed to become more creative, more cross-disciplinary and that we needed research outlets like this journal which needed to encourage this type of writing. Many fields have useful things to say for those who research the role played by people management in organisational effectiveness. We pointed, in particular, to the fields of risk and crisis management, decision sciences, supply chain management, operations management, consumer behaviour, innovation, strategic management and political economy as being fertile ground for those researching the people management issues linked with organisational effectiveness. This is not to say that authors need to come from a variety of such disciplines – given the realities of academic structures and research evaluation this is not going to happen any time soon. However, in their analysis, in their framing of concepts and in their language, researchers and the papers they write need to adopt more universal and relevant notions. They need to mix and match constructs across disciplines – to cross-fertilise our analysis. This must be done on the basis of a sensible and informed understanding of how other disciplines use these constructs rather than just some trendy attempt to carve out a research contribution.

Now, in all the fields mentioned above each have different and useful notions that could usefully help us think more creatively about our research into organisational effectiveness. The journal has run successfully for 10 years now and clearly this is fertile territory.

Given all that we have written about in this article, however, we thought it would be useful to make our argument that we should reframe some of our research by teasing out just a few ideas that emerge from the study of risk. It somehow seems relevant to today's world!

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The nature and consequences of risk have long been central academic themes and there are many useful ways that risk can be incorporated into the study of organisational effectiveness. Sociologists think about the deep social structures that shape our society, how institutions legitimise and influence the way we act and how hidden cultures shape our behaviours, they remind us of the challenges faced when we seek to modernise society. Consequently they are either relatively optimistic about social change – a sense that if we could use even half the vision and energy and invention and pulling together we see happen in times of social distress is there really anything that we cannot do or they are distinctly pessimistic about the dark side of modernity. Beck (1992) famously coined the phrase “risk society” to describe the modern world. Risks are now inherent in our society. Organisations – and the managers who run them – operate in a world of risk in which they have to constantly respond and adapt to the hazards and opportunities these risks present. They may come *from* primary drivers such as technology, environment, health or geo-political influence or they may relate *to* important artefacts of our society such as culture, political traditions, employment, jobs and well-being. Organisational effectiveness, it seems, is driven by challenges that are increasingly global in scale – nuclear accidents, financial crises and pandemics – are no longer restricted to just one place. The *timescales* through which we judge risk and effectiveness are also changing. The consequences of how organisations respond do not only impact today’s world. The consequences of events such as environmental accidents or change, shifts in genetics, advances in artificial intelligence are all inter-generational. So too must be the solutions we discuss.

Similarly economists feel they know about risk. Kay and King (2020) have recently revisited early economic theory to argue that in practice resilience means embracing radical uncertainty – a world of unpredictable events, uncertain consequences and alternative futures. Strategic actors, managers and policymakers are tempted to understand an ever-changing, uncertain and ambiguous environment by assuming that outcomes – however unlikely – can be quantified in some way, that we can attach probabilities to them, and we can use algorithms to maximise the utility and guide our decision-making. This provides what behavioural economists and cognitive psychologists call illusions of control – a tendency to believe we can control or at least influence outcomes that we demonstrably have no influence over. Top teams or senior leaders are notorious for being so deluded. The only counter to this, if organisations are to be truly resilient, is to pursue far more collaborative decision-making based on collective intelligence and the acceptance of judgement. Another argument perhaps for more critical and cross-disciplinary writing!

The Covid pandemic also introduced two further terms into our lexicon about risk that might usefully be applied to our thinking about organisational effectiveness: risk mitigation and risk suppression. We have become aware that we might pursue a *Risk mitigation* strategy – curbing the worse onset of the pandemic – as captured by the phrase popular with mathematical epidemiologists of “flattening the curve”. It required a strategy to make the pandemic less intense by isolating cases and households. *Risk suppression* – followed in China until recently – involved stopping the pandemic in its tracks until its genetics or treatments were better understood or social patience ran out. It required extreme social control such as shutting people in other than those who could not work from home, closing schools, universities, factories, airports, offices and shops. Which is or was the most effective? How might we ever make such judgements? Putting the sadly inevitable political spin to one side, the judgements will surely be complex. Going back to our diary on Covid, and the challenge of real-time decision-making, the initial forecasts by Imperial College London *at the outbreak of the pandemic* in March 2020 suggested that a risk suppression strategy would lead to 2.2 million deaths in the USA and 500,000 in the UK Risk suppression, it was argued, also carried the risk that people would remain susceptible to the virus thereby fuelling more future outbreaks, and continued on–off cycles of future suppression. It would become economically unsustainable as governments used up their

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capacity to sustain businesses and households. Risk mitigation, it was argued, would reduce the mortality figures by about one half. However, in the UK, even a mitigation strategy would mean that peak demand on the healthcare systems would still be eight times beyond the surge capacity of the National Health Service. Three years later (the last UK Covid Infection Survey was published in March 2023 and the data are now closed down) shows that in the eventuality UK deaths were 223,396 three years later. Total deaths in the UK however were still 9.3% above the five-year average, with 4.6% of all deaths still being attributed to Covid.

The Covid pandemic also laid bare that organisations manage risk either by transferring risk or its costs to others or by changing the distribution of risk. The notion of *transfer of risks* makes us think far more carefully about the level of analysis when thinking about effectiveness. Risks or costs might be moved across economic markets, nations, institutions, organisations, professions, stakeholders or individuals. The costs may be borne now or possibly transferred to a future generation. The notion of *risk distribution* reflects the fact that in the same way that wealth has been unevenly distributed – it has accumulated at the top – risks too have become unevenly distributed. With risk there can be an inverse relationship. Whilst wealth accumulates at the top, risks tend to accumulate at the bottom. The wealthy tend to have the income, power or education to purchase safety or freedom from risk. Poverty of course generally carries an abundance of risk – whether this be that the poor within a society or poorer nations. This remains so despite the reality that the impact and consequences of more and more risks – be these pandemics, economic system collapse or environmental shocks. These events do not actually understand the word “class”. In a literal sense, we are all actually in this together. Well, perhaps.

Let us conclude with one last observation. We could easily become obsessed with what may seem to be or to become a myriad of anticipated dangers. Indeed it seems today that it almost becomes compulsory for people and organisations to try to eliminate risk, as if one ever can. However, imagine a world where our papers – no matter what issue they were covering and however macro or micro their focus was – judged their messages about organisational effectiveness on the same basis as we consider risk. How might the discussion sessions on organisational effectiveness go?!

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