

Enterprise Risk

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The official magazine of the Institute of Risk Management

Battling the risks: the military approach / **Productivity puzzle:** a manufacturing bugbear / **The art of communicating:** essential skills / **Opportunity knocks:** what recruiters want / **Return of the real:** the post-digital consumer



Departure platform: Helen Hunter-Jones on treating ERM as a change initiative at Network Rail

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Editorial



Time to focus on productivity

Manufacturers in the UK are enjoying an uptick in sales following the recent devaluation of sterling, according to recent reports. The most influential of these – a quarterly survey by industry trade body EEF, which represents thousands of manufacturers and engineers – shows that makers expect increased levels of output growth during 2016.

Those in the electronics and electrical equipment sectors reported strongest growth, whereas those in the construction business are faring less well. But there are worries about how much manufacturers are planning to increase investment into their businesses.

Without such investment productivity falls. And productivity has been a major issue for UK industry for a number of years, as Neil Hodge writes in this issue (see pages 18-21). Without investment, equipment becomes outdated and unable to meet the needs of those customers looking for better goods and products. Making those on the shop floor work longer hours doesn't work either because UK businesses cannot compete with industries based in low-wage economies.

“ Perhaps too much effort has been expended on digital strategies in recent years at the expense of the real things that companies produce

One would expect risk managers to play a major role in helping companies innovate to increase productivity. But the range of views expressed by those interviewed in the piece shows that the nature of how they can and do help differs greatly. That does not mean that different approaches are not needed, but it probably indicates more thought and action is required in this area.

Perhaps too much effort has been expended on digital strategies in recent years at the expense of the real things that companies produce. There seems to be no better example of this trend than the music industry, as I examine elsewhere in this issue (see pages 30-32). In the rush to find the right digital distribution channels for their products, record companies ditched their highly successful, long-standing formats – especially the vinyl record.

But bands and customers did not want to let go of their cherished cultural objects. It has taken a while, but record companies have revived something that was under-funded and under-valued and turned vinyl into a high-end consumer product again. It's not just nostalgia that is driving this change, however. The revenue from vinyl records outstripped the income record companies derived from advertising sales from video-streaming platforms such as YouTube last year.

If UK manufacturers are to thrive, they need to invest, innovate and become more productive. They need, in fact, supportive and imaginative risk managers.

Arthur Piper

Editor



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Increasing productivity through innovation is a huge and pressing challenge for manufacturers. How are risk managers helping?

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Effective communication is an essential skill for risk managers. Richard Gossage offers some practical advice on how to do it better

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The UK's decision to leave the European Union and tighter regulations have made recruiters change their hiring requirements

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From books and maps to vinyl records, non-digital formats are making a comeback. Does this mark the birth of the post-digital consumer?



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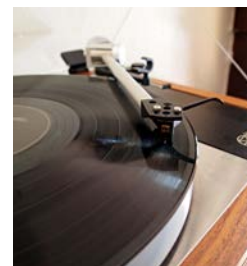
In need of insurance services, risk management software and solutions, or training – look no further than our listings

38 Toffler

Ulrich Beck's seminal book on risk society is forty years old, but its lessons on the nature and management of risk still feel cutting edge



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That'll do nicely

Risk managers have a part to play in helping to stamp out bribery. The IRM's new guide on the issue is here to help

Not so long ago, giving someone a back-hander to move a project along, or treating potential clients – even government officials – to lavish nights out was seen by many organisations as a cost of doing business. It was a part of large areas of commercial life, a part, in fact, of business culture.

Many of the recipients had a great time, no doubt. But now we understand those practices and many more less-savoury activities as bribery. Yet giving something its proper name is only the beginning of the battle.

As many of you will know, the UK's Bribery Act of 2010 made it an offence for businesses to "fail to prevent" people either working directly for them, or those associated with them, from bribing another person on their behalf. To have a defence against this law, organisations need to be able to prove that they have adequate procedures in place to prevent associates bribing others.

That makes anti-bribery procedures a live issue for risk managers. And that's why the IRM – together with Transparency International UK – is this month publishing new guidance to help risk managers in the fight against this form of corruption: *The Bribery Risk Guide*.

The task of stamping out bribery is formidable. It is often difficult to define because bribery is not always visible and does not always involve money. It takes place globally on a huge scale. Research shows that about one in four people paid a bribe in the last year. The World Bank reckons that the value of bribes offered annually is over US\$1 trillion.

And the risks are not simply a fine under the Bribery Act for those caught out. Individuals involved can face imprisonment, and the


business can find their contracts terminated, their services and products blacklisted, and they face significant reputational damage as the case drags on for years through the courts.

The fact that the press reports on so many of these cases means that many organisations do not have adequate procedures in place to combat bribery. Those measures have to exist from the very top of the business right down to employees working in difficult circumstances where a culture of bribery is endemic. Simple solutions can be very effective. For example,



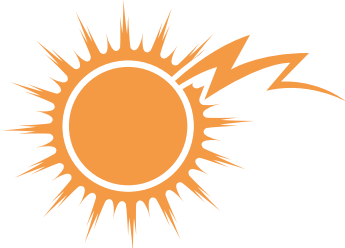
The fact that the press reports on so many of these cases means that many organisations do not have adequate procedures in place to combat bribery

faced with the bribery of its delivery drivers in Myanmar, the beverages company Coca-Cola required its truckers to carry a laminated card saying that they were forbidden to pay bribes. The initiative met with some resistance, but over time the practice diminished. Sometimes more complex solutions are needed.













Our *Bribery Risk Guide* can help risk managers identify and evaluate their exposures to the risk of bribery. It explains how risk assessment fits into the development and maintenance of an organisation's wider anti-bribery programme. And while it won't win the war against corruption overnight, it is another step in the right direction. 

The latest stories and news affecting the wider business environment as interpreted by our infographics team

Solar shock



Solar storms are hard to predict, give little warning, and can cause huge disruption to electronic equipment, power grids and the economy. Three recent models show what could happen in the US

| | MILLIONS OF PEOPLE AFFECTED | TIME TAKEN TO RESTORE FULL POWER | COST OF SHOCK TO US |
|--|--|---|--|
| Scenario  |  90m |  6 months |  \$474bn |
| Scenario  |  145m |  8 months |  \$1532bn |
| Scenario  |  145m |  12 months |  \$2693bn |

Source: Helios Solar Storm Scenario, Cambridge Centre for Risk Studies

Hijacked

Monthly cyber attack report shows cyber criminals begin to favour account hijacking as a way of breaching organisations' defences

Who?

The most popular targets were industry and government



48%

How?

Account hijacking has become the most common method of attack



14%

Why?

Most cyber attacks in July were motivated by cyber crime



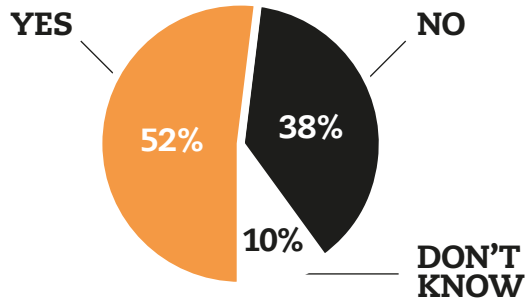
74%

Source: Hackmageddon.com – Information Security Timelines and Statistics

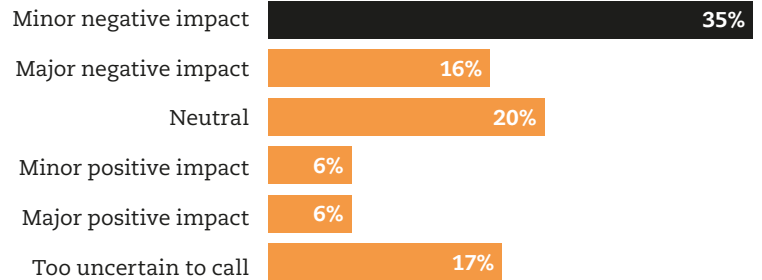
The impact of Brexit

Most risk managers think the impact of coming out of the European Union will be minor

Just over half of respondents ran Brexit-related risk scenarios before the vote took place on 23rd June



Most risk managers believe the impact of Brexit will be negative – but not large



What they said:

“Uncertainty means opportunity as well as risk and risk professionals have to step up to this challenge to position themselves as strategic leaders”



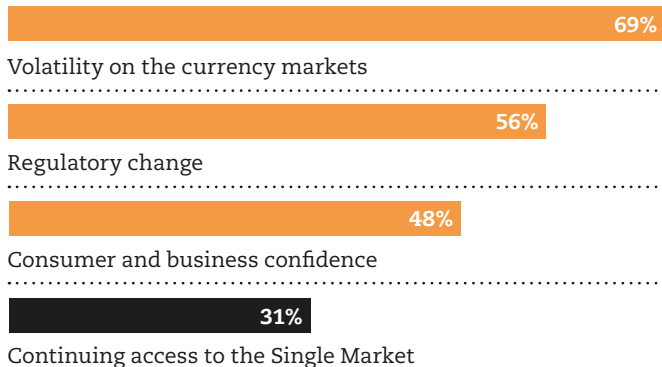
“We still have to deal with all the other big risks that existed pre-Brexit – cyber, climate, oil price volatility. Brexit must be seen in the context of overall risk management”

Source: Institute of Risk Management, bit.ly/2cF2lPA

Access to single market low on threat list



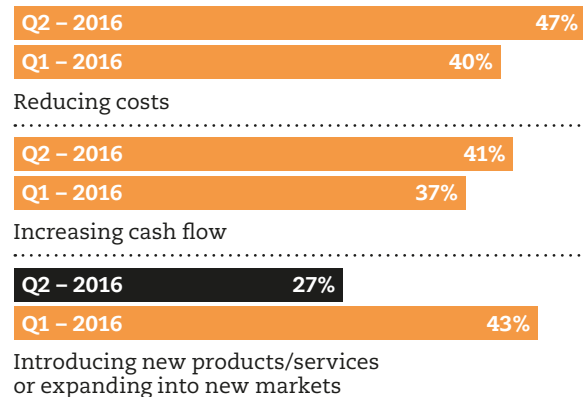
PERCENTAGE OF RESPONDENTS



Source: Chartered Institute of Internal Auditors, bit.ly/2bUS4db

Chief finance officers get risk averse

Biggest casualty of Brexit are plans to expand into new sectors and markets



Source: The Deloitte CFO Survey, bit.ly/2andpwM

Departure platform

Network Rail is spending £40bn in the five years to 2019 on an ambitious plan to upgrade the UK's rail infrastructure. Helen Hunter-Jones, Head of Group Risk at the organisation, explains how her team are building a risk platform to support the project

..... BY ARTHUR PIPER

When Helen Hunter-Jones joined the UK's train infrastructure business Network Rail in 2012, she thought she had said goodbye to central government. The company was a quasi-independent organisation charged with keeping the country's trains running, and planning and implementing major upgrades to the national system. She left HMGCC, a small government agency, after 20 years' service where she had, among other things, developed and managed its enterprise risk management (ERM) processes.

But it was not to be. On 1st September 2014, the government brought Network Rail back under its wing in what many described as re-nationalisation. Hunter-Jones had been promoted to Head of Group Risk just two months earlier. She shrugs off the personal irony of the situation, but agrees that the change in the business' status has thrown up some anomalies and opportunities.

"Our key product is a fully functioning, fit-for-purpose railway infrastructure system," she explains when I catch up with her at the company's national office in Milton Keynes. "And our biggest pressure is our ability to get access to the network to actually repair it."

In some areas of the country, engineers have a window



If good risk management is important now, it will be even more critical with perhaps twice as many trains running on the system

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Image credit: neilhodge.co.uk



The truth is that in an organisation of this size and complexity, a small number of risk managers cannot manage all risk. The people that understand the business have to do that and they need the right tools and have to be accountable and responsible for making decisions

.....

of only three hours per night to do their repairs. That means having all of the necessary kit in place and the right people ready to work for a very limited period per day – which hikes up the cost of repairs and the amount of days needed to rectify problems. While the company can plan major enhancement projects years in advance, if a tree falls on the line anywhere from Land’s End to John O’Groats, it has to react quickly. Any delays to trains caused by a failure of its infrastructure – or from external causes, such as acts of God – means the company having to pay compensation to a train operator, such as Virgin or Stagecoach.

“It’s not going to be easy, but I think everybody is realising that this penalty approach which can lead to a tense, blame culture, needs to change, and there are lots of conversations to be had about what needs to be done,”

she says. “We have to work better together and for me it’s all about sharing risk and collaborating because we are all here to provide a service ultimately to the passengers.”

Europe

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While she would like to see the system revisited, reviewing the impact of the UK’s decision to leave the European Union on the business is a more pressing item on her to-do list. “We are currently going through a piece of work to understand all of our principle risks and what the potential impacts will be, but more, actually, on what the opportunities are,” she says.

One of the main risks for Network Rail is that the European Union is a major funder of large infrastructure projects. On the other hand, some European legislation, for example on endangered species, and

interoperability – (the idea that all rail gauges should be uniform across the EU) could change, making projects like the planned North-South rail link HS2 potentially easier to build.

Given that capacity crunch on the railways, Hunter-Jones says the imperative is to find a way of making space to run more trains. What is needed, she says, is to introduce modern digital signalling technology which will allow trains to run much more closely together, thereby enabling many more trains to run while using the same amount of track. At the moment, a train cannot run on a piece of track between two signals if another train is already present. It is the only safe way to make sure trains do not get too close to each other. Digital signalling does away with that restriction because each driver knows where he or she is in the system in relation to the other trains. The

Victoria and Jubilee lines on London Underground use this digital signalling technology which has delivered a huge increase in capacity – more trains and more seats for commuters.

Innovating risk

If good risk management is important now, it will be even more critical with perhaps twice as many trains running on the system – with all of the potential problems that exist today from weather and infringements on the track to breakdowns both of the infrastructure and the trains.

Hunter-Jones and her team have been busy innovating on the visualisation of risks – a project that won her a gong at last year’s Institute of Risk Management’s annual risk awards. This provides a much better picture of the relationships between individual and systemic risks. She is hoping that improved data analytics across the network on how well the organisation’s assets perform – track, signals, and other hardware – can inform its planning and increase the amount of proactive management that is possible.

Through an innovative project, ORBIS, tools have been developed to support intelligent data analytics. A team within the Safety and Technical Engineering function has developed a topographical view of the network, which shows, for example, where embankments are, how steep they are, where the trees and culverts are, and so on; a map of its assets and their expected life spans; and, a map of the weather conditions. The aim is to be able to overlay these views in real time so the team can begin to see and predict where the flash points are and act in advance of problems becoming catastrophic.

“We have done a lot of work using data analytics and we want to be able to use our predictions to move on to more risk-based maintenance schedules and to move, eventually, into true risk-based maintenance,” she says.

None of this will be possible without a sound ERM system in place and, needless to say, Hunter-Jones has been working hard to implement just such an approach. Given the complexity and size of the organisation, operational risk in health and safety, major



Image credit: neilhodge.co.uk



We have to work better together and for me it’s all about sharing risk and collaborating

infrastructure enhancements and other mission critical processes were already strong when she arrived. But collating and escalation all of that data on risk into something that could be used by the board and the executive team as a strategic tool was a key aim.

And when Hunter-Jones did start the process, it was not easy.

“It was a real challenge and the credibility of the team was low,” she recalls. Hunter-Jones found herself with a team of two – which she has grown to seven today. In addition, there are about 30 risk co-ordinators in the business, which employs about 35,000 people, and a team of 80 that work in the Risk

and Value team supporting the multi-million pound enhancement and renewals portfolio.

Change project

Hunter-Jones treated the ERM initiative like a change project. She wanted to create a culture within the entire business that was aware of risk, so that people knew who to go to if they suspected there was a problem. “You can put all the tools in place you like, but you won’t get the output you need if people do not think in the right way,” she says. “It took a long time and it took lots of conversations, but it was good because it brought together a risk community throughout the business and that hadn’t happened before.”

In practical terms, that meant putting together a design authority for the project – a committee that met every month to thrash out what issues needed to be addressed and how they could do so. One of the most important streams to the programme addressed the issue of competency and training, the other addressed culture. Some of her staff have sat IRM qualifications – and Hunter-Jones was herself IRM Diploma Student of the Year in 2012. On the culture side, the team went around the organisation and talked to everyone from the board and the executive, to management and frontline staff.

“I needed to get everyone around a table to make it a joint development so it wasn’t just me telling them what to do,” she said. “I was dreading trying to build risk appetite into the business and nobody understanding it, but because of the approach we took, when we got to that point, everybody said, ‘thank God – we’ve been wanting this for years.’”

“It was fantastic and I couldn’t have built the risk framework or the risk appetite without the input of those people,” she adds. “They all helped shape it, so ultimately everybody owned it – and if you all own something, you are less likely to moan about it and not do it.”

Stage two involved embedding risk management throughout the business. That involved creating some training sessions and a lot more travel for Hunter-Jones and her team. They built on a previously created team of risk co-ordinators – a community



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of people within the business units who both ensured that risk was being managed within those divisions, and supported the reporting process back to the central team on more strategic risk issues. Then, she introduced a final layer at the top – business assurance committees, chaired by directors and supported by a secretary generally drawn from the finance area who have a good grasp of the business and its goals. They were forbidden to bring their risk managers to the meetings, so there was a lot of embarrassment at first because some found they were not as up-to-date on risk as they needed to be.

“The conversations are brilliant now – the view from two years ago to now is not comparable,” she says. She says the organisation has gone from being very reactive, to being one where anticipation and challenge about risk among management is normal.

“The truth is that in an organisation of this size and complexity, a small number of risk managers cannot manage all risk,” she says. “The people that understand the business have to do that and they need the right tools and have to be accountable and responsible for making decisions.”

The risk management team now also works closer together than before. Hunter-Jones wants to develop a broader community of risk professionals both within the organisation and beyond. She is a member of the government’s risk improvement group, for example, and a cross-industry risk group that comprises businesses local to Milton Keynes, including Mercedes and Rolls Royce. She has just been involved in a benchmarking exercise with Airbus entailing reciprocal site visits. “I’m really keen on learning from others and developing a profession,” she says. “After all, risk changes all the time and you have got to keep learning to stay ahead.” 



Battling the risks

Military commanders face ambiguous and fast-moving circumstances, which can change in rapid and unexpected ways. What can business leaders learn from the military's approach to risk management?

..... BY SIR RICHARD SHIRREFF

The risk landscape is changing and the experience of campaigning in Iraq and Afghanistan reflects the reality of twenty-first century conflict: congested, contested and confused with multiple stakeholders – and subject to the demands and pressures of globalisation and 24-hour media coverage.

In order to achieve the desired outcome, commanders have to take into account the views, needs and power of indigenous people, governments, international organisations, diplomats, government aid agencies, humanitarian organisations and non-governmental organisations – all of which places a premium on winning popular consent. Operations need to be subjected to the criterion: what impact will this have on the minds of the people, in the widest sense of the word? If people are alienated, the advantage is gifted to the adversary. This means people-centric – or perhaps in more familiar jargon, stakeholder-centric – campaign planning.

But this complexity and the need for people-centric planning is not confined to the military world. Business too faces similar changes to the risk landscape. The experience and methodology applied by the military in campaigning is relevant too for business, particularly when operating in complex, volatile and uncertain environments, such as a gold mine in West Africa, fracking in northern England, or running an international bank in central London.



The key principle which underpins everything is, whatever we do alone is not as important as what we can do together

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Left and above: Soldiers marching in formation. Alliance fighters launch a barrage against Taliban forces in Afghanistan.

Below left: An Alliance fighter preparing for battle with Taliban forces north of Kabul, Afghanistan.



Stakeholders have a voice which if ignored or denied can threaten company reputation and jeopardise commercial success

Good governance

The complexity of recent campaigns has demonstrated that security cannot be achieved solely through the application of military force. Such an approach may be a key part of building security physically, but security must be perceived by the people among whom operations are conducted, so there is a moral aspect too. Thus security is as dependent on good governance, as it is on adequately trained and relatively incorrupt indigenous security forces, and on reconstruction and economic development.

So, success depends on the closest possible integration between the military and the non-military actors on the stage if unity of purpose is to be achieved. The military has adapted to meet this challenge: avoiding any fortress or silo mentality, opening its doors and developing the relationships, structures, culture and language to make it work. The key

principle which underpins everything is, whatever we do alone is not as important as what we can do together. For the military, how it engages with its friends is as much a concern as how it deals with its adversaries: the essence of what the military calls the comprehensive approach.

These changes also reflect the challenges faced by business in the 21st Century. The business world is now, in its own way, equally, if not more, complex. Take the extractive and oil and gas industries. They too must take account of the multitude of stakeholders who have an interest in what they do because the impact of globalisation and 24-hour media (particularly social media) now gives an increasingly influential voice to stakeholders potentially opposed to their interests. Any sector must recognise that it will be operating “among the people” because there will always be stakeholders with an interest in its activity. Those stakeholders have a voice which

if ignored or denied can threaten company reputation and jeopardise commercial success.

Comprehensive approach

This suggests that the comprehensive approach adopted by the military to manage risk is now equally relevant in other sectors, particularly for capital projects in difficult, complex and volatile environments. A similar integrated, multidisciplinary approach to that found on the battlefield is also needed to ensure that boards properly understand the environment in which they are operating and are equipped with the mechanisms to ensure that risk, or whatever threatens a company’s centre of gravity, is appropriately mitigated.

How to meet this challenge? First, is the need for a deep and comprehensive understanding of the environment. Without understanding the economic, social, technological, ethical, media, political, legal,

environmental and regulatory forces at work you cannot derive the right tools, structures and proficiencies required.

Second, the importance of strategic leadership is as applicable in the boardroom as on the battlefield because simple rules or principles of leadership and templates of decision-making do not necessarily serve one well in complex situations where there are no right answers, just limited choices between the least wrong ones. So, clarity of thought, vision and adaptability exemplify the strategic leader as much as resolution and determination. An ability to live with ambiguity and uncertainty, and, not least, a pragmatic capacity to take calculated risk for the longer-term and greater benefit, distinguish the successful strategic leader from the tactical operator. Fundamentally, it is about being successful on two counts: strategy, or how to win a war, and tactics, or how to win a battle. And the words of the Chinese strategist Sun Tzu written around 550 BC are just as relevant to business as they are in the military: "Strategy without tactics is the slowest route to victory. Tactics without strategy is the noise before defeat."

Finally, successful execution of strategy depends on what the military call mission command, which means that subordinates must be empowered, supported and resourced – but they must also be accountable. In the military world, success is dependent on trusting the people on the ground to use their initiative. They can see what is happening and they can understand the risks, the challenges and the opportunities infinitely better than anyone sitting back in a remote headquarters or head office. But they must use their initiative in line with the overall strategy. They must be crystal clear about the intent and what is to be achieved. Senior leadership must ensure, not only that the strategic intent is clear and well understood, but that the front line has the resources and functional support, including strategic level assets, needed to achieve the mission – and then let them get on with it. But this needs trust and trust takes time to build.

Campaign planning

But mission command does not mean delegation of responsibility. In the military world, command is indivisible



John Gomez / Shutterstock.com



“ Simple rules of leadership and templates of decision making do not necessarily serve one well in complex situations where there are no right answers, just limited choices between the least wrong ones

and the commander remains responsible for everything, including risk. Risk management is factored in to every aspect of the decision-making process. Every commander is his or her own risk manager.

Fundamental to the management of risk is effective campaign planning: strategy implementation. This starts with understanding the conditions to be achieved to meet the needs of strategy effectively, the campaign end-state, or the desired set of circumstances. Next, an analysis of stakeholders' centres of gravity (or sources of strength) determines the objectives and decisive conditions to be achieved in order to ensure that stakeholders become allies rather than adversaries. From this are derived activities to achieve the decisive conditions. Planning along these lines ensures that there is proper integration between different activities.

Risks are identified and the second and third order impacts of one risk on another and the relationship between risks are understood and planned for. For example, a mining company planning its engineering operations needs to think through the implications of this on the community and on the sustainability of its lines of operation.



Istvan Csak / Shutterstock.com



No military commander would launch an operation without war-gaming the plan to determine the friction points or risks and, therefore, the necessary contingency plans or mitigation strategies

War-gaming

Third-party participation will almost certainly be necessary for the key stage of the planning process when the plan is war-gamed against a red team, which is there to help spot weaknesses and improve performance. No military commander would launch an operation without war-gaming the plan to determine the friction points or risks and, therefore, the necessary contingency plans or mitigation strategies. Clearly, business leaders are not facing an enemy in the same way that a military commander might. However, they will face friction, the law of unintended consequences and Murphy's Law, which dictates that if anything can go wrong, it will, and at the worst possible time. Rigorous war-gaming or scenario testing will minimise the risks of this happening.

Underpinning everything is the information domain, for information is a strategic instrument in its own right, with influence being the desired product. Winning the battle of the narratives means telling the more compelling story, hence the importance of putting strategic communications at the heart of strategic planning and

executing a sophisticated and well-planned influence operation to reassure stakeholders, deter and prevent potential risks, and protect company reputation.

Vision, strategic direction, innovation and the ability to motivate and inspire while maintaining the drive, discipline and financial sense required to make a profit will remain fundamental requirements of business leadership. However, commercial success, particularly for those companies engaged in mining, drilling and building major infrastructure projects in complex, volatile and uncertain environments around the world requires more than purely commercial capabilities in a straightforward commercial context. Success, today and in the future, depends on the achievement of unity of purpose and effort with other non-commercial players in the business space. Leadership and corporate planning must adapt to meet the challenge of achieving truly integrated planning and execution with other stakeholders if risks are to be minimised, company operations secured and profits maintained. ☺

 **Sir Richard Shirreff is co-founder and partner of Strategia Worldwide Ltd. Contact info@strategia-worldwide.com, or visit www.strategia-worldwide.com. Sir Richard Shirreff will be speaking at the IRM's Risk Leaders' Conference on 24th November.**

Left to right: UK protests against fracking. War refugees in Hungary. Twenty-four hour media coverage.



GongTo / Shutterstock.com

Easily said, but it is remarkable how many companies have got this wrong – and paid through the nose for a failure to establish an integrated campaign plan to manage inter-related risks from the start of the project.

Effective campaign planning also requires companies to have the philosophy and structures to be able to conduct integrated planning and execution with key stakeholders. There are two aspects to this. First, the establishment of the plugs and sockets to allow a company to reach out and work alongside those organisations reluctant to accept too close a corporate link. Second, the requirement for a multi-disciplinary team at the heart of corporate strategic planning capable of assessing the risks and threats to corporate activities, and of working alongside indigenous governments, peoples, and other agencies to mitigate the risks (whether social, environmental, security, political or otherwise) to corporate activity. Such a team need not all be held on the company pay roll. Indeed, in order to retain credibility with stakeholders it is important to retain independence so participants may be brought in as required on a consultancy basis.

The productivity puzzle

Increasing productivity through innovation is a huge and pressing challenge for manufacturers. How are risk managers helping?

..... BY NEIL HODGE

Productivity has been a longstanding, contentious issue in UK manufacturing, with output often constrained by outdated production techniques and a lack of investment in technology. Some economists have suggested that whatever economic growth occurs, it is not necessarily due to people working better or more efficiently. Rather, it is the result of an increase in the total number of hours worked.

But in a world where manufacturers in developing countries like China and India have a glut of cheap labour that they can call on to mass produce everything from steel girders to plastic cups, trying to make people – rather than processes – more efficient will only achieve limited gains in the long run. The EEF, the UK’s main manufacturing body, is acutely aware of the problem and has pushed for manufacturers to become more “lean” and agile in their operations, and to invest in better technology and techniques to remain competitive.

And at the heart of such change is innovation. Research by PwC from 2013 in its *Global Innovation Survey* found that the most innovative companies from the industrial manufacturing sector grew 38% over the previous three



It is clear manufacturers recognise the need to increase their investment in innovation

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“ Risk managers should be involved in questioning executives about how they came up with their ideas

a strong role to help support the organisation’s need to innovate. Adrian Clements, general manager, operational risk management at steelmaker ArcelorMittal in Luxembourg, says that “innovation is uncertainty, and uncertainty is risk, so it is clear that innovation strategies are part of risk management.”

However, Clements makes an important distinction. He believes that “you need to be a risk manager and not an insurance risk manager to have the credibility to get a seat at the table when discussions around innovation are taking place.” He adds that “an insurance risk manager will typically only look at how much the risks surrounding the innovation strategy will cost to insure – not at whether the process is necessary or the right one for the long-term strategy of the company.”

Clements also believes that risk management should be involved in the process that establishes the framework for making the decisions regarding the innovation process. “Everyone is responsible for risk management,” says Clements. “Our role is to provide the framework to help inform better decision-making to influence the innovation strategy.”

Questioning

He is also clear that risk management should not be involved in producing any of the strategic ideas around innovation. Instead, he says, “risk management should be involved in questioning executives as to how they came up with these ideas, and help the board work out which ideas should be discarded and which ones are the most feasible and best suited to the organisation’s future needs.”

Once the innovation strategy is decided, Clements says that it is important to set up “gates” to check

years, while the least innovative managed just 10% growth over the same period.

More recently, research suggests that leading manufacturers are well aware of the need to innovate to remain competitive. According to KPMG’s 2016 *Global Manufacturing Outlook* survey of 360 C-level global manufacturing executives, 39% of respondents say that over the next two years they will devote a significant amount of R&D towards advanced manufacturing technologies such as robotics. A quarter (25%) have already invested in artificial intelligence and cognitive computing technologies, as well as in 3D printing.

Investing

“Investing in innovative solutions and services is at the top of the agenda for

manufacturers,” says Brian Heckler, National Sector Leader of Industrial Manufacturing for KPMG in the U.S. “Whether investing in incremental improvements for existing products or inventing entirely new products and services, it is clear manufacturers recognise the need to increase their investment in innovation.”

Risk managers have a wide range of views about the challenges surrounding the need to innovate, and what the role of risk management should be in the process.

At one end of the spectrum, one risk manager, who declined to be named, said: “In my experience, innovation happens and risk management finds out afterwards once the product or service is on the market.”

Others, however, are more involved and believe that the profession has

progress at particular stages of the project's life-cycle. "Risk management needs to closely monitor the innovation strategy and establishing such gates will help check progress and establish if the strategy is on course, whether it is still the right choice, whether it is achievable and if the deliverables are still the right ones, particularly if the market has moved."

Having an exit strategy is also crucial, says Clements. "Innovation strategies are very difficult and expensive, and market conditions can change more quickly than the time it takes to embed the strategy. There is no point pouring more money and resource into a strategy that is no longer going to pay off, so there has to be a point where management recognises that they need to pull the plug and try something else. Risk management needs to ensure that an agreed exit is in place, and the function must be willing to enforce that in the face of strong resistance/reluctance in the boardroom."

Clements says that the steel industry is under pressure to innovate on several fronts. Firstly, a lot of the steel plants in Europe and the US are old and need to be modernised to lower production costs, as well as meet the specific production requirements that customers demand in their end products.

"A lot of infrastructure projects now require much stronger and lighter steel products, as does the automotive industry," says Clements. "However, many plants cannot meet these production requirements easily because they do not have the machinery in place to do it. They are failing to meet client needs and this has been an apparent trend for many years, but innovation costs money and not many producers are willing to invest – sometimes because there is no real risk of closure as governments are too willing to bail them out, which is counter-intuitive to good risk management," he says.

Transformation

Several organisations have embraced innovation – so much so that their business models have completely transformed, as have their service and product offerings. Huawei Technologies, a Chinese multinational networking and



“Managers do not want or need a tidily arranged list of risks that they already know about

telecommunications equipment and services company, has transformed itself into becoming the world's third largest mobile phone vendor within three years, knocking Microsoft's Nokia division into fourth place in the process. Prior to embarking on that strategy, the company did not manufacture a single phone.

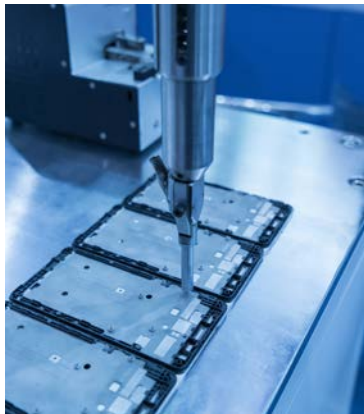
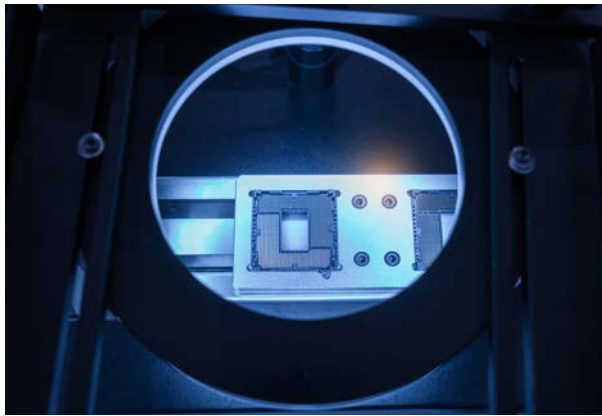
According to research firm Strategy Analytics, in 2015 Huawei shipped about three million more phones than Microsoft, or 30.6 million versus the Redmond company's 27.8 million. That's a 50% uptick from 2014 for the Chinese company, and the resulting market share — 7% — encroaches on Apple's territory, which has a 10% share of the market (Samsung sits comfortably in the lead

with a 21% share).

The change in commercial strategy came too early for risk management to be involved – the company was just setting up its risk function as the process was underway. Instead, risk management is now dealing with monitoring the strategy's progress, but Phil Tarling, vice president, internal audit capability at Huawei Technologies, is clear that risk managers are not directly involved in the innovation process itself – and nor should they be.

"Innovation comes from R&D," says Tarling. "We spend around 12-15% of our revenue annually on R&D. They know the market much better than risk management ever will, and so it is right for them to lead. Also, it is not up to risk managers to talk about what the company should be doing – that is the responsibility of business managers," he adds.

"Unless you are in a highly regulated sector like financial services, risk management would not be involved in product innovation because the function would simply slow the process down and add to the risk of the product coming too late to



market,” says Tarling. “And if you look at UK financial services now, where risk management has to approve products and services beforehand, there has been very little innovation in the past few years,” he adds.

Education and oversight

But risk managers do have an important role to play. Tarling believes that risk management’s contribution to the process should be to instil in managers that they are responsible for risk management. “People assess and manage risks in their work every day,” he says. “What risk management should be trying to do is to make managers be risk managers, rather than risk management trying to manage the process itself and coming

up with risk registers.”

According to Tarling, risk management’s job is to oversee how decision-making is made based on the information that management receives, and check that the risk appetite that the board has set is understood and shared by the rest of the organisation.

“We have adopted the three lines of defence model,” he says. “As part of that approach, we are trying to ensure that the first line of defence – executive management – is responsible for managing risks, while the role of risk management as the second line of defence is to develop and oversee the enterprise risk management framework. In other words, is the risk appetite that is being used in the mobile phones division in line with the

board’s appetite for risk? Is the division taking too much or too little risk? Is the view of risk consistent across the whole organisation?”

Other risk experts believe that risk management’s core contribution to any innovation strategy is to look at the business case. “The real benefit of having a risk management function is for it to look at the project, examine the costings and do the maths,” says Derek Salkeld, analyst at risk consultants DS+A.


Salkeld says that risk analysis can play a valuable role in an organisation’s innovation strategy by providing an easily assimilated visual representation of the business case for investments. “Managers want to know whether they have got their sums right or if the project is actually going to overrun and cost five times more than they anticipated.”

No lists

He says that managers do not want or need “a tidily arranged list of risks that they already know about”. Instead, he argues, managers want to know what the risks are that they have not foreseen, and further, what might the overall impact of those and the ones they know about be on the success of their proposed innovations, as well as how they can be effectively and efficiently managed.

Salkeld also says that discussing an organisation’s risk appetite can be difficult, mainly because there is a danger that people will not necessarily understand the concept in the same way. “An organisation is not a sentient body but a collection of individuals, each of whom will instinctively judge the risk differently, and further, have their own views on whether to take it or not,” says Salkeld.

Instead, Salkeld says that well-researched figures will win management’s hearts every time. “Obtaining a consensus among stakeholders is often best achieved through well-researched analysis and sensitive explanation because it is difficult to counter a compelling risk assessment,” he says.

If UK manufacturers are to become more productive, getting to grips with innovation is key. Risk managers have a central role to play in that process, but deciding how best to help still seems to be a work in progress. 

“ Obtaining a consensus among stakeholders is often best achieved through well-researched analysis and sensitive explanation because it is difficult to counter a compelling risk assessment

The art of communicating

Effective communication is an essential skill for risk managers. Richard Gossage offers some practical advice on how to do it better

..... BY RICHARD GOSSAGE

I was sitting on the train recently and, despite my best intentions, found myself listening to one side of a conversation a guy was having on his mobile. It wasn't going well. You could just tell. It was a business-related call and he was trying to communicate that the timing of part of a project didn't work and needed to change. His arguments for why didn't sound that convincing, but he was clearly passionate about the subject.

As the conversation progressed, the tone got harder, louder. The sentences got shorter, more assertive. Several of my travelling companions were now tuned in. The call concluded with the words, "No, you are just not listening. I can't deal with this anymore. I will speak to you in the office." The man took his phone from his ear and stated to anyone who wanted to listen, "Man, what an idiot!". The train finally pulled into its destination and we all moved on.

I found myself reflecting on the man on the train. Why did that conversation go so wrong? Putting aside the issue of the professionalism of talking business in a public area, what could he have done better to get his message across? Fortunately, there are some common reasons as to why we fail to get others to understand our message and there is a framework we can use to help us improve our success rate.

Keep talking

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Stephen Hawking, the eminent physicist, has said that the greatest contribution to the advancement of mankind is our ability to communicate – we have to keep talking. Today, in every area of





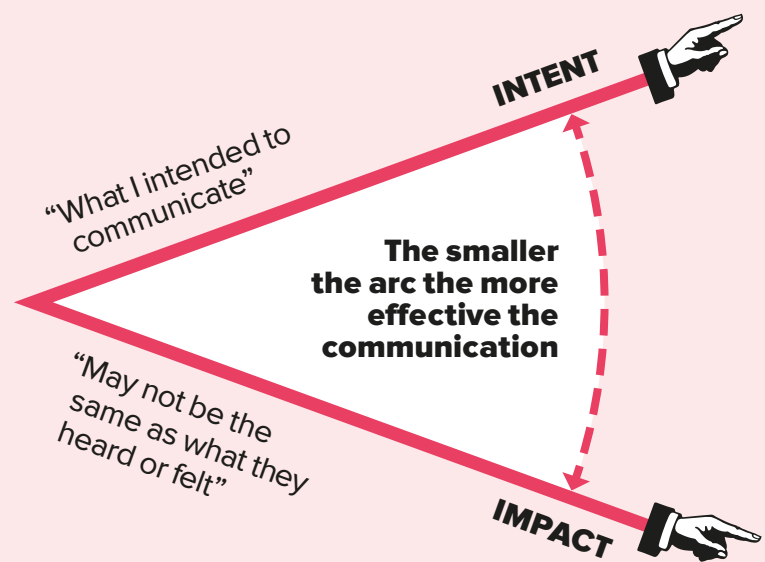
We often just don't want to deal with the emotional reaction of actually talking to someone

our lives, we have more technology, delivery channels, and opportunities to do just that – keep talking. So why is the man-on-a-train example of miscommunication so common?

My road to effective communication starts with a simple construct that has helped me over the years – the arc of miscommunication (See *The arc of miscommunication*). The basic premise is simple: the smaller the arc, the more likely it is that your message will be understood. There are many factors that influence the arc and most of these are within the control of any risk manager who wants to try it out.

On one side of the arc is my man on the train. He had intent. He had a message in his head that he wanted to communicate to the person at the end of the phone and create a desired impact. However, from the way the call progressed, the actual impact achieved was clearly not what he intended. This raises some important questions. Did he actually have a clear

THE ARC OF MISCOMMUNICATION



message in his head, or had emotion blurred the edges? Had he thought about where the other person was coming from, and what would make them shift their stance? And, was a voice-only call the right channel for this potentially difficult conversation? This method of communication removes any chance of physically seeing the person's reactions.

Here are some ways we can challenge ourselves when considering how well we prepare before communicating. First, ask how well you clearly set out what it is you want to achieve – what is your intent? Secondly, how much thought do you give to the receivers of your message? Are they in a good mindset to receive the message? Do you know how they like to receive information? For example – do they respond to pictures better than words? Do they like written material more than a verbal conversation? How compelling are your arguments? What mechanism do you put in place to check to ensure that the message you intended to send is the one that has been actual received and understood?

Collectively, there are many things that we regularly do to reduce our ability to communicate well. Most people's top five would include failing to be clear on our intent – what we are trying to achieve; failing to keep it simple and concise – we speak or write too many words that just make it harder for the receiver to process; designing and constructing the message for our benefit rather than the receiver's. Risk and audit professionals are particularly guilty of this. We pride ourselves on setting out all the things we did to justify the conclusion we reach – and at the end we add the conclusion. The business executive just wants the conclusion, and supporting evidence where necessary, as an appendix. Next, is choosing a delivery channel that suits our needs, and ignores what the receiver needs. We often just don't want to deal with the emotional reaction of actually talking to someone. Finally, failing to think enough before we act.

A framework

This is too simple, I hear you cry. Objectors point out that communicating is a very complex



Risk and audit professionals are particularly guilty of designing and constructing the message for our benefit rather than the receiver's

business. And presenting to a large audience is completely different to writing a formal risk policy, or monthly risk-performance report for the board.

I agree. There are different variables to consider when communicating in writing as compared to communicating orally. But there is also a framework that will help you communicate more effectively in your business environment.

Let's focus on written communication first with four key words: intent, design, create, and remember.

Intent first. A hard truth is that the more time we spend planning the task, the less time we spend overall – and the end product will be of a higher quality. To think about this in a structured way consider the following open end questions: Who am I writing this for? What am I aiming to achieve, what is my objective? What are the key messages, and their priority? What emotional reaction do I need to create: in me, and the recipient(s)? Are there cultural issues to consider? What communication style and type does the recipient respond to best? How do they like to receive information? What do I want the recipient to do next?

A key tip in this process is to think in ink. Write down the answers to the



The art of communicating effectively is mainly about following simple, common sense and audience-focused guidelines

TOP PRACTICAL TIPS FOR PERFORMING

- Know your message and the audience – where are they coming from, what do they need?
- Environment – don't be surprised by the setting
- Focus on the outcome – what three things do you want them to take away or do?
- Keep content simple – tell a story, use pictures. Don't be boring!
- Consider the questions you may face
- Rehearse
- Test the AV or other aids you elect to use
- Ground yourself. Pause for two long seconds before you start
- Speaking pace should medium (about 120 wpm). Add pauses for gravitas and pace for excitement
- Bridge the arc to ensure your audience has understood you.

questions so that you really get a clear grip on what your intent is.

Next, focus on design. Get your pen out again – or your device of choice – and write down your responses to the following questions: What is the best medium to express your communication – written document, slide pack, email, hand written note, text? What order should the key messages appear on the page? Once you are clear on these issues, design the message flow using pen and paper, or a whiteboard. When you are happy with the message flow, design the page layout. How the words are presented on the page is as important as the words themselves. Think about emphasis. Then, check to confirm that you have covered everything in the intent specification – you will be glad now that you wrote down your answers. Finally, if you get someone else (or a team) to write the document for you, ensure they understand the intent and design before they invest time in actually creating the communication.

Key tip in the design process is to make the document and page layout attractive to the reader. Make it easy to read and navigate.

When you are satisfied with the intent and design you are ready to start to create. In doing so consider the following ideas to help focus your

mind. Use few words to start each point, and only build out if required. Three copper-bottomed words to keep in mind are accuracy, brevity and clarity. Complete a rough draft – then go for a walk. Re-read what you have created and complete a top draft before going for another walk. Then it is time to apply the polish. Get someone to proof read and check for sense. Confirm that you have not missed or strayed from the design brief. Challenge yourself by asking if each point can be made shorter or clearer. Take another break before reading afresh. If it is all good, it is time to send to the recipients.

The key tip at this stage is not to worry about spelling or grammar when creating the rough draft. That level of detailed attention will disrupt your flow. Sort out the English when you create the top draft. Remember to bridge the arc to check how well your message was understood.

Perform

We should also remember that we live in the digital age. We FaceTime, and Skype, use multi media now to communicate. So how does this intent, design, create, remember process work in this world of instant communication? Well, we need to add the word perform (See

Top practical tips for performing).

It is perhaps not surprising that whilst these new communication channels create greater access, they don't make the challenge of communicating effectively any easier. However, the big advantage over written communication is that you can see the body language reaction to your message and, with practice, you can adjust the tone of your delivery. Your eyes allow you to bridge the arc in real time. This is harder to achieve via a conference call, but that is beyond the scope of this feature.

The art of communicating effectively is mainly about following simple, common sense and audience-focused guidelines. Be clear on what you need to communicate and why. Consider what the audience needs and wants to hear, and what is likely to be the most effective method of getting that message to them. Lastly, go the extra mile and ask them if they took away the message you intended. As for the man on the train, I wonder how the meeting in the office did pan out? 🙄

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Opportunity knocks

The UK's decision to leave the European Union and the beefing up of regulations have made recruiters change their hiring requirements. But that's only part of the story

..... BY LIZ BURY

In today's job market, the choices open to risk professional at all levels are unfolding in new and unexpected directions. In addition to the influence of Solvency II and a tougher regulatory regime, the Brexit vote has introduced a new note of uncertainty and with it, opportunity.

In the short-term, particularly in the banking sector, the vote is leading companies to hire into contract roles in preference to permanent positions. "Banks tend to like contracts anyway, because it gives them the flexibility to remove staff should they need to. Pre-vote, we saw a reasonable amount of permanent hiring, but there's more on the contract side now," says Rob Starkl, a specialist recruiter in financial services and banking risk at recruitment firm Robert Walters, based in London.

In Edinburgh, predictions of a strong market for interim roles are echoed and there's an expectation that any potential regulatory changes resulting from Brexit could result in more risk vacancies. "There will be more need for risk skills, not necessarily all permanent. It will likely be strong on the interim side of things as well," says Lucy Adam, managing director of Adam Appointments, an Edinburgh-based recruitment firm focusing on corporate governance.

In a survey on Brexit conducted by the Institute of Risk



There's an expectation that any potential regulatory changes resulting from Brexit could result in more risk vacancies



“ The most competitive roles at the moment are risk roles with a quantitative slant, both at analyst and manager level

Solvency II, is now complete, and the risk function is moving on to become more focused on quantitative analysis, and the ability to communicate to business leaders. “The most competitive roles at the moment are risk roles with a quantitative slant, both at analyst and manager level. The first few years of Solvency II was a big push on the technical build side, internal models, that’s now done, and they’re looking for risk managers who come from a quantitative leaning and therefore can understand the quantitative technical side; they also want the qualitative commercial side, to communicate it to the wider business. So that’s candidates with accountancy backgrounds, or Chartered Financial Accountants (CFAs), or part-qualified actuaries,” says Caplan.

The emphasis on quantitative skills is true for hiring companies beyond insurance too, particularly in banking and consulting. “If you go back even a couple of years, very few risk functions would be looking to hire data and maths grads, and people with that type of statistical background. You’d have quants going into financial risk teams but in terms of broader analytics and data work, in regulatory risk or compliance, or operational or enterprise risk, that just didn’t happen. Now you quite regularly see consulting firms, banks, and insurers hiring for, let’s say, a regulatory analytics specialist – that’s someone with a background in data management, maths, or statistics,” explains Dougie McAndrew, partner, Adam Appointments.

Commercial competency

There is also a growing demand for risk professionals who are commercially aware and able to face outward to the wider business. Alex

Management (IRM) in the two weeks from 29th June to 13th July, out of 187 risk managers questioned, 51% anticipated that Brexit would have either a minor or major negative impact; 12% thought a minor or major positive impact; 20% were neutral; and 17% didn’t know. Analysing the results, the IRM notes that a “significant proportion” of the respondents who foresaw a positive impact were consultants or accountants, suggesting that those in project-based roles expected their skills to be in demand as Brexit unfolds.

Others say it’s too early to call what affect Brexit could have on the risk profession. “We just don’t know enough about Brexit yet for it to have had a significant impact on the roles we’re seeing,” says Lloyd’s and London Market risk recruiter Simon Caplan, partner, insurance, at recruiters Arthur. “There will be more

project recruitment in preparation for what may happen, and it may affect investment in growth recruitment, because companies aren’t sure what will happen long-term.”

Quantitative focus

Brexit aside, risk roles are continuing to evolve, and with that the skills and competences that the job requires are maturing as well. “Risk management as a discipline has evolved dramatically over the past five or six years in what companies are looking for. Originally, it was very operationally risk focused, then enterprise risk management, and now it’s more quantitative risk,” says Caplan.

This shift reflects the situation within insurance organisations whereby the technical build in risk management, particularly around



“ IRM is a qualification that we look for in candidates, and over the past five years that has become far more important

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Hindson, chief risk officer at insurer Argo Group, points to the IRM’s professional standards document as a source for the six key behavioural competencies of risk management: courage, influence, integrity, innovation, building capability, and collaboration. “Courage and influence are key. You have to be prepared to talk about what may go wrong with people who may not really want to talk about it, in the context of helping them to do something about it rather than burying their head in the sand. You need influence and impact to convince them that it’s worth spending the time doing it,” he says.

Caplan agrees that a commercial competency is now to the fore: “It’s about communicating complex regulatory issues and their implications to the wider business. Risk management is a second line of defence, it’s about challenging the business when required, and that goes with developing and maintaining relationships,” he says. “If you don’t have commercial competency now, within insurance, you’re going to struggle. Solvency II has made that even more important in every discipline in insurance companies but specifically within risk management you have to understand the impact to the wider business.”

This is certainly true of the chief risk officer (CRO) role, where commercial competencies are top

of the list. The direction of travel for CROs and their risk teams, particularly in insurance, is that from being very technical and regulatory focused, they are now a more commercial function. “If you talk to headhunters that is what they’re looking for, that’s what every client wants – somebody who can help the business to make decisions, rather than deal with the regulatory burden. A senior manager that happens to be the head of the risk function, as opposed to a risk manager. As CRO I’m part of two teams: I’m head of the risk function and also part of the senior management team in the same way as the finance director. It’s a maturing of the role of the risk function,” says Hindson.

Education and training

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Another big development in risk careers is the growth in number of courses and qualifications covering the subject. Whether graduate degrees designed to provide an early grounding in the discipline, or qualifications for experienced practitioners to rubber stamp and enhance knowledge and experience, study is increasingly common among risk professionals as they move through their careers.

“It depends on the level, but it helps to have someone with experience and someone with a qualification, so the IRM qualification is good from that perspective, because it gives you a rounded view

of enterprise risk management; it’s solid, broad, and sector neutral,” says Hindson. “I moved into the risk function of a pharmaceuticals company from the core business. After a couple of years I realised I really enjoyed it, but I wasn’t portable because I had no qualification, so that’s why I picked up the IRM qualification,” he adds.

Recruiters also tend to welcome qualifications, not as a deal-breaker for entering a role, but as an indicator of interest in, and commitment to, the discipline. Undergraduate degrees are being offered by universities including Belfast, East Anglia, Glasgow Caledonian, Leicester, London School of Economics, and Portsmouth.

“That was never the case historically, people used to fall into risk management, rather than choosing a career in it. A degree shows passion and commitment for the subject,” says Caplan. Further, masters degrees are offered by Cass Business School, Glasgow Caledonian, Liverpool, and Nottingham, and there are multiple professional courses and qualifications.

“Traditionally in risk management most people tend to have a good first degree, and for the more quantitative disciplines, like quantitative analytics, it’s not uncommon to hire PhD qualifiers,” says Starkl.

In insurance, Caplan adds: “We do look for risk qualifications. IRM is a qualification that we look for in candidates, and over the past five years that has become far more important, and is seen as rubber stamping their risk management credentials.”

As UK and European politicians work out what will be the next steps on Brexit, an educated and commercially savvy risk professional is well placed to play their part in any transitions. “There are still a lot of decisions that have to be taken from a political and legislative point of view before companies really know what they’re doing. At the moment, planning is more complicated because people are trying to maintain operations and plan for multiple possible outcomes, depending on what’s agreed. People aren’t making big changes at the moment, it’s too early for that,” says Adams. ☺

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 **Liz Bury is a freelance journalist**



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Return of the real

From books and maps to vinyl records, non-digital formats are making a comeback. Does this mark the birth of the post-digital consumer?

..... BY ARTHUR PIPER

The past is littered with defunct consumer technologies. Cassette tapes, Betamax videos, Sinclair XZ Spectrums and, almost, vinyl records. The demise of the 7" single came first with the advent of digital downloads in the late 1990s. The long-playing record quickly followed suit. In 2002, for example, record sales in the UK were still climbing – hitting 228 million albums that year. But by 2007, annual sales had crashed to a mere 240,000. It looked as though it was time to say goodbye to the popular music revolution that Columbia Records had pioneered with the invention of its long-playing disc back in the 1940s.

Fast forward almost a decade and vinyl has made a remarkable comeback. Admittedly, sales are not what they were, according to the industry body BPI. It is predicting somewhere in the region of 3 million plus LP sales in 2016, up from just over 2 million a year ago. But prices are different too. In 2002, an LP cost just under £10 – a new low for an industry facing stiff competition from compact discs and digital piracy. Record companies cut back on the weight of vinyl and skimped on cover art and quality. Today, albums usually cost more – between £18-£30 – and even higher for limited edition releases. Many are pressed on hefty 180-gram vinyl and have thick covers and good

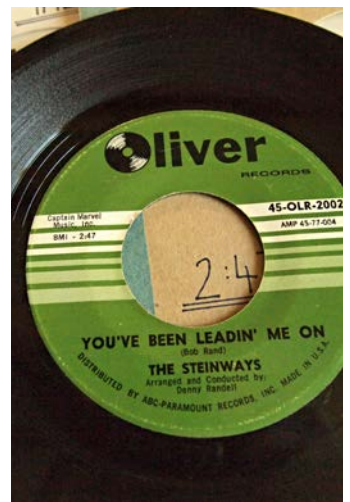


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What's really fascinating is that there is a younger generation of fans who very clearly have got into physical records – whether it's to collect and admire, or whether it is to play as well

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artwork. Neither CDs nor piracy have disappeared, so what has happened?

Gennaro Castaldo at the BPI says that bands such as the The White Stripes, The Strokes and The Killers in the US, and the Arctic Monkeys in the UK began releasing vinyl LPs in the mid-2000s as a way of both paying homage to the indie and rock scenes of the past, and as a way of finding new ways of marketing their music during a recession. By then, many of independent retailers that had supported the scene had closed in the face of reducing margins and competition from Amazon's online distribution network. The few that survived needed a boost. So they got together in the US – later in the UK – and in 2007 launched Record Store Day on which punters could buy specially released vinyl and CD products made exclusively for that day.

Young and old

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Vinyl was on its way back, but why? "What's really fascinating is that there is a younger generation of fans who very clearly have got into physical records – whether it's to collect and admire, or whether it is to play as well," Castaldo says. "They are drawn to vinyl as part of the mythology around music and the fact that it represents almost the ultimate expression of recorded music." Add to that the baby-boomers who never stopped buying vinyl and you have a healthy market.

Ironically, the other developments that seem to have saved vinyl are a combination of new technology and old.

Napster, the peer-to-peer file sharing service, launched in 1999. By 2000, it had 20 million users, many impatient, internet-savvy teenagers keen to download as much music as

possible for free. Sound quality was secondary to the quantity of music available and ethical considerations, payment and intellectual copyright could be by-passed at the click of a mouse. Because Napster did not store the MP3 downloads on its servers, its legal position was unclear and subject to challenge by the record companies. When downloads went commercial with Apple iTunes and other similar services, music fans paid for downloads and were less willing to pay again for a physical product – hence the decline of records from 2003 – 2013.

One of Napster's founders Sean Parker went on to partner with Mark Zuckerberg in the early days of Facebook and then invested in the music-streaming service Spotify. And it is music streaming that has helped save vinyl. While streaming services act as a virtual duke box giving access to seemingly unlimited artists and

tracks, relatively low subscription rates have opened the door for other formats – especially high-quality LPs.

Streaming and vinyl

“Vinyl and downloads are complementary, but we’ll see them bundled less over time, given the increasing ease and reach of streaming subscriptions to provide a digital format to listen to music on,” Stephen Godfroy, co-founder of the record store chain Rough Trade, says. “The digital download market is falling off a cliff due to the rise of streaming subscriptions – downloads fall between the two stools of vinyl and streaming, being neither the most convenient nor the most rewarding format.”

Godfroy believes that LPs represent the finest and truest aesthetic representation of an artist’s work. That’s because it combines rich, musical output quality with a large format for displaying artwork and creativity. CDs find it hard to compete on this second front, constrained as they are by their diminutive physical presence.

“Couple this collection of attributes with the burgeoning demand for authenticity, crafted, handmade, handpicked consumer choices as a counter reaction to the increasing impersonal digitisation of experience,” Godfroy says, “and you have a music format (the LP) at the forefront of a post-digital era retail-scape, where digital natives embrace artefact digital alternatives (often for the first time) to enhance and embellish their buying decisions.”

The industry seems to have come full circle with a radio-style, personalised service supported by high end physical products. But no one expects sales to reach the highs of the early 2000s. That is because the record industry is dependent on a shrinking number of pressing machines, which require great skill to operate. In Europe, for example, there are three large pressing plants in Germany: Optimal, Pallas and RAND. In addition, there is GZ in the Czech Republic, MPO in France, Record Industry in Holland, and Well Tempered in the UK. Given that the large music companies sold their own presses with the advent of CDs, supply is likely to be limited while

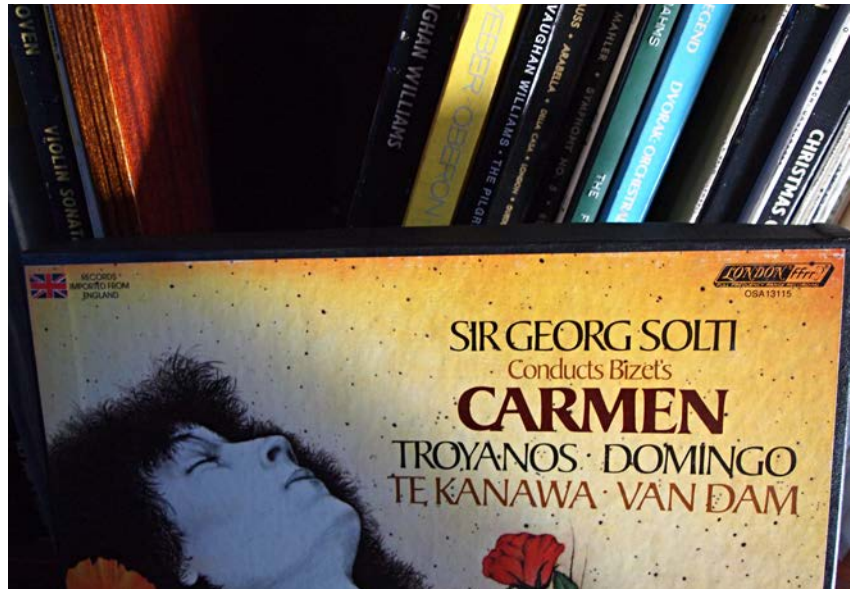


Image credit: Arthur Piper

demand continues to increase. That could help LPs retain a niche and profitable market for decades to come.

The trend in vinyl is not an isolated phenomenon. Book publishers are also seeing a fall in e-book sales. Bookseller magazine estimates that the UK’s biggest publishers saw a 2.4% decline in such sales in 2015. Last year, the retail chain Waterstones withdrew the Kindle e-reader from its stores complaining that it was getting “virtually no sales.” Waterstones chief executive James Daunt said that the trend was favouring well-produced books that people wanted to own and keep. “A bookshelf full of real books makes its digital imitator seem pale indeed,” he added.

These developments offer important lessons to businesses faced with disruptive technologies and the emergence of a post-digital consumer landscape. Most strikingly, perhaps, is the resilience of old consumer technology formats in the face of rapid innovation. By investing in a neglected and tired product, niche record companies, and then the majors, have reinvented something that could so easily

have disappeared. This is not just a retro-trip, but a window into human attachments to technologies. The phrase “out with the old” seems to completely miss the point for a growing segment of the consumer market. Those planning a digital-only strategy in this post-digital world may need to think again. 📀



Image credit: Arthur Piper



Downloads fall between the two stools of vinyl and streaming, being neither the most convenient nor the most rewarding format

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IRM's Risk Leaders Conference – Thursday 24th November, London, is almost here. The focus will be on resilience and keeping your business fit for the future.

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Éireann Leverett, Founder and CEO, Concinnity Risks – Éireann once found 10,000 vulnerable industrial systems on the internet. He then worked with computer emergency response teams around the world for cyber risk reduction.

Tim Johnson, Chief Operating Officer, Register Larkin – Tim advises FTSE 100 and Fortune 500 companies and high-profile public organisations on how to earn, maintain and expand their licences to operate. And more from BT, Network Rail and Wolseley plc.

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BALLOT – IRM DIRECTORS 2016

Voting Members of the Institute will have recently received an email inviting them to vote in the election of Board Directors for 2016.

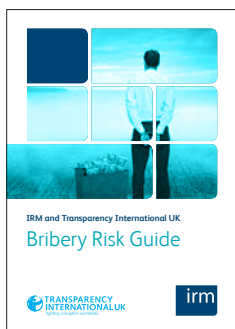
The email contained a link to an external webpage

where you can cast your vote electronically. Voting opened on 5th September and closes on 3rd October.

If you do not have an email address or wish to cast your vote by post, please telephone our membership team on: +44(0) 207 709 4125.

The Institute belongs to its members. That's why we encourage you to use your vote on key decisions that affect you – such as election of the directors who run the Institute on your behalf. Your vote counts – please use it.

BRIBERY RISK GUIDE



Enterprise Risk Management (ERM) is becoming more ingrained in business strategy and day-to-day practice.

The mitigation of risks is fundamental to the success of any organisation and bribery is a major risk that has the capacity to ruin a company's reputation and cost it dearly, not only financially.

Cases of bribery and corruption have been hitting the headlines, involving everything from high profile sporting organisations and personalities to major companies, resulting in record fines and severe damage to the public image of household brand names.

Paul Hopkin, Director Technical Director at the IRM says: "Bribery can take many forms. In popular culture it's often seen as a dark art, special

agents switching briefcases, fat cats lining their own pockets. But in a lot of cases bribery is more 'under the radar' and can involve staff at both a grassroots and board level.

This guide is intended to help anyone managing risk identify and evaluate their exposures to the risk of bribery. It also explains how risk assessment fits into the development and maintenance of an organisation's wider anti-bribery programme".

Peter van Veen, Director, Business Integrity Programme at Transparency International UK added: "We are delighted to collaborate with IRM on this guide. It is an important addition for anyone who manages risk and we hope that it will help risk professionals and their colleagues to strengthen their approach to mitigating bribery risk."

Bribery Risk Guide Workshop, 20th October London: bit.ly/2bzPBst
Copies of this free guide can be downloaded here: bit.ly/2cprm1N

IRM LAUNCHES HEALTH AND CARE SPECIAL INTEREST GROUP

Patrick Keady is Chair of the IRM's new Health and Care Special Interest Group. He is a Certified Risk Professional and Chartered Safety Practitioner. Patrick is the only individual to have held the roles of Non-Executive Director at the Institute of Risk Management and Chairman of the Board of Trustees at IOSH, the world's largest professional body for Chartered Safety Practitioners.

He is establishing a special interest group for people interested Health and Care in Australia, England, New Zealand, Scotland, Wales and

the US. The inaugural seminar and workshop takes place in London on 14th November.

To register for this event email: events@theirm.org

MEMBERSHIP RENEWALS REMINDER



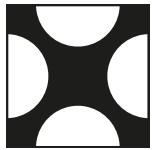
The renewals period for 2016/17 is about to expire and we want to remind you that the renewal deadline is 30th September 2016.

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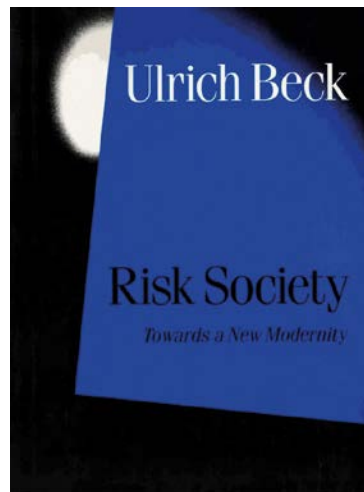
Happy birthday risk society

Ulrich Beck's seminal book on risk society is forty years old, but its lessons on the nature and management of risk still feel cutting edge

This year marks the fortieth anniversary of one of the first and most influential books ever written on risk – *Risk society, towards a new modernity*, by the German sociologist Ulrich Beck. Published in Frankfurt by Surbkamp Verlag in 1986, the book sold 60,000 copies in its first five years – sales figures, one suspects, that surprised both the then little-known sociologist and his publishers.

Beck is interested in why the rules of capitalism that were thought to exist from the late Victorian era into the mid-twentieth century no longer seemed to apply. Back then, the emphasis of many economists fell on the production of goods and wealth. Economic and political critiques centred on wealth production and ownership. The ills of capitalist industrialisation were outweighed by the fact that it helped raise living standards among the poor by feeding, clothing and housing them. During the 1960s, there was still poverty in Germany and the UK, for instance, but the bar had been raised in terms of what people began to think of as basic needs. We can see that today when people argue that the ability to get online is a basic human right.

What happens, asks Beck, when society's basic needs have been met at these levels and when capitalism becomes more global? Society begins to enter a period of "reflexive modernisation," he argues. The downsides of industrialisation – pollution, injury at work, slave labour and so on – that had been ignored in the rush to create wealth now "come out of the closet and achieve central importance in




“ Confining the assessment of risk to government departments or global corporations is effectively the privatisation of a social problem

social and political debate.” Modernisation is not just a producer of wealth, but also a creator of risk – the two now indivisible.

Not only were Beck's observations prescient, their implications are still

well worth considering. Why so? Global hazards, he argues, become part of the system of modern business. While organisations aim to mitigate such risks in their own industries, globalisation makes it difficult to deal with and contain risk within corporate structures. Think systemic risk and specifically who is responsible for that and you get the picture.

In addition, with the rise of professional risk managers, there can be a clash between the lived experience of those suffering from hazards and the way professionals talk about and assess risk. That touches on the way that businesses are sometimes accused of not listening to stakeholders, customers, patients, those claiming industrial poisoning, among others. That's why Beck also suggests that technological and scientific approaches to managing risk can be too narrow to be effective. The more that companies begin to look at ways of managing the risk culture in their organisations, for instance, the more Beck's inclusive approach make sense.

But, more importantly, Beck's central argument is that risks are social in nature. Confining the assessment of risk to government departments or global corporations is effectively the privatisation of a social problem. Cybercrime, for example, affects everyone and cannot be dealt with without collaboration between many different groups and interests. All voices and groups need to be included in building a solution. Beck challenges risk managers to look beyond the technical details of their day-to-day work and think big. 

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