Enterprise Risk

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The official magazine of the Institute of Risk Management

New wave: proactively choosing the profession / **Refocusing risk governance:** what the revised UK Combined Code means / **Making the case:** getting involved in business case analysis / **From saint to sinner:** the fragility of reputation

Risk management is common sense: Jo Macdonald on engagement, behaviour and culture at the DWP

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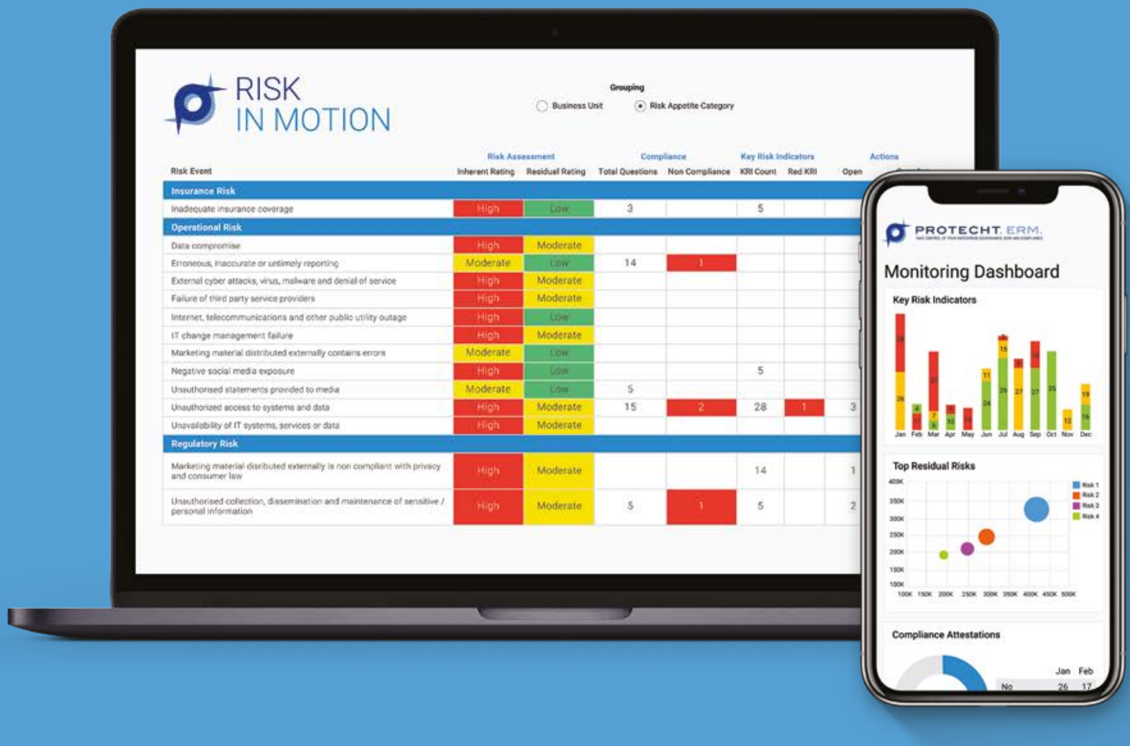

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Enterprise Risk

Spring 2019

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IRM is the leading professional body for enterprise risk management. We are an independent, not-for-profit organisation that champions excellence in managing risk to improve organisational performance.

We do this by providing internationally recognised qualifications and training, publishing research and guidance and setting professional standards across the world. Our members work in all industries, in all risk disciplines and across the public, private and not-for-profit sectors.

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Editorial

Playing a leading role

The risk management profession is more diverse than ever. IRM's records show that there are more women and more people from different ethnic groups than ever before.

In this issue we wanted – in a somewhat unscientific way – to find out if those changes ushered in a different kind of risk manager. One that hadn't found their way into the profession by accident, but more through choice.

You can read the results in "New wave" starting on page 16 inside. At the round table event, hosted at IRM's headquarters in London in February, attendees expressed enthusiasm for their chosen profession as well as frustration.

The zeal comes from a shared belief that risk management can make a real difference to organisations. Sharing best practice across the business, helping management deepen their appreciation of risk and emphasising the opportunities that such an approach can bring are common themes.

> **The zeal comes from a shared belief that risk management can make a real difference to organisations**

In addition, risk management is seen as an exciting job – one that pushes people individually and that provides opportunities to go places and be involved in large, complex projects at an early stage in a career. These themes are echoed in the phone interviews Jo Powell conducted with other new wavers from as far afield as Malta and Africa.

Two main frustrations surfaced during the sessions. First, participants felt that technology has not moved on as fast as it should have done in the profession. Given that this is the first cohort to have grown up with ubiquitous computing, that may not be surprising – but better risk visualisation is seen as a must-have improvement in the near future. While heat maps and risk registers have a place, younger risk managers want to see more compelling visuals to help them explain risk to their clients in the business.

Second, some participants challenged how far diversity has spread in many organisations. Risk as a profession is doing better and, in some ways, is ahead of the curve – but there is more to be done. What struck me, though, is the energy and optimism that such change can come and that risk management will play its part in leading the way.

Arthur Piper
Editor

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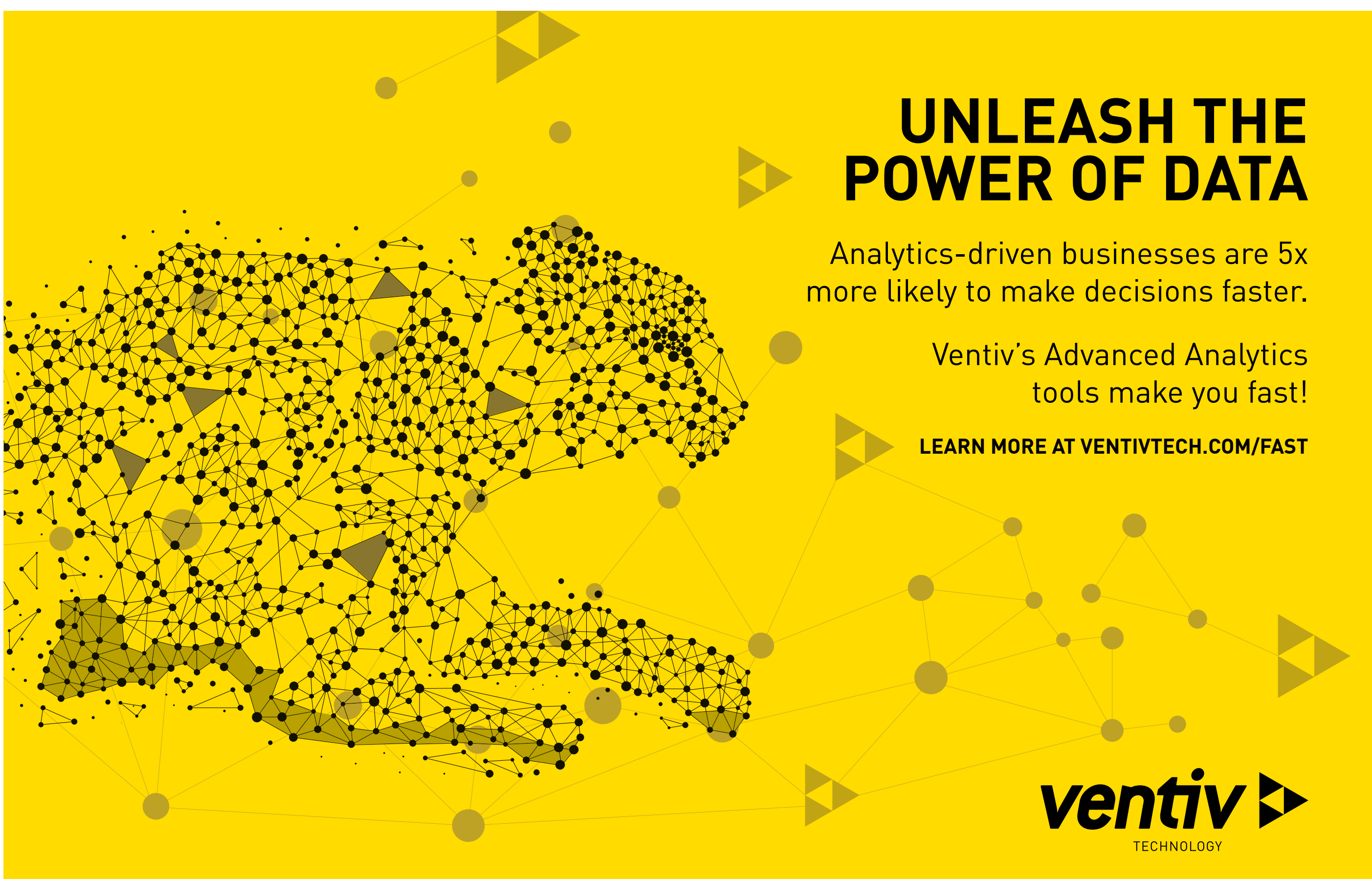
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TECHNOLOGY

Spreading the word

IRM's strategy for internationalising risk is finding a warm welcome in India

On the road into central Delhi it's quickly apparent that India has a rather interesting approach to risk. Scooters whizz with babies and toddlers wedged not so firmly between Mum and Dad, scarves trailing, mobile phones to hand for essential text messages. Seat belts in taxis are non-existent. Rubbish and rubble are strewn around the busy roads swarming with people, dogs and farm animals.

Yet when you leave the street and step inside businesses and organisations you find a modern, ambitious India with a growing middle class, keen to adopt world-class standards of operation, build successful businesses, deliver services and raise living standards on a massive scale – for a population now exceeding 1.3 billion.

With IRM's strategy of internationalisation indicating a match with the desire of individuals and organisations in India to build competency in risk management, some further research was needed. Whereas IRM has for many years attracted students and members from India, numbers are very small in relation to the potential size of the English-speaking market. So, in late 2018 IRM director Sanjay Himatsingani and I embarked upon a high-speed tour of some of the major financial and business centres to meet IRM members and contacts, raise awareness of IRM and what we have to offer and find out more about local market needs.

Ambassadors

Central to our trip was catching up with IRM's member "ambassadors" for India – Sonjay Kumar and Abhishek Paul. These hard-working volunteers provide a local point of contact for anyone wanting to find out more about IRM's qualifications and training, and their advice is vital to us in considering our plans for the region. With the support of their local contacts at the All India Management Association (AIMA) a "meet-the-IRM" session was organised to lay foundations for future co-operation.

Thanks to introductions facilitated by local IRM members, we were also asked to meet with some major organisations in Mumbai, Delhi and Bangalore, including EY, Lloyd's, SBI Life, Pinkerton, Mahindra and Mahindra, and Société Générale. We were also very pleased to establish a strong relationship with the Institute of Directors (India), which is sharply focused on developing governance and risk management competency among its 31,000 members.

Education

IRM has also had a long-standing relationship with the Indian Institute of Insurance and Risk Management (IIRM) in Hyderabad. This establishment is the foremost local provider of courses leading to certification in insurance and risk management on a residential basis, and exemptions are offered by IRM, as appropriate, in respect of IIRM's courses. We were delighted to see downloaded copies of *Enterprise Risk* in IIRM's popular student library, which also held a larger stock of IRM textbooks, past and present, than IRM itself.

> **India offers great opportunities for spreading professionalism in risk management**

Education is highly valued in India. We learnt that it is common for individuals to seek to obtain multiple certifications before starting seriously on their careers and that the focus tends to be on individuals rather than employers to make this happen, and pay for it. IRM is therefore planning to work with local partner ITI EdVest on an initiative to promote and deliver risk management training in India in a way more tailored to local needs.

India offers great opportunities for spreading professionalism in risk management. IRM's response is to uphold and promote global standards of excellence while at the same time being sensitive and responsive to local market differences.

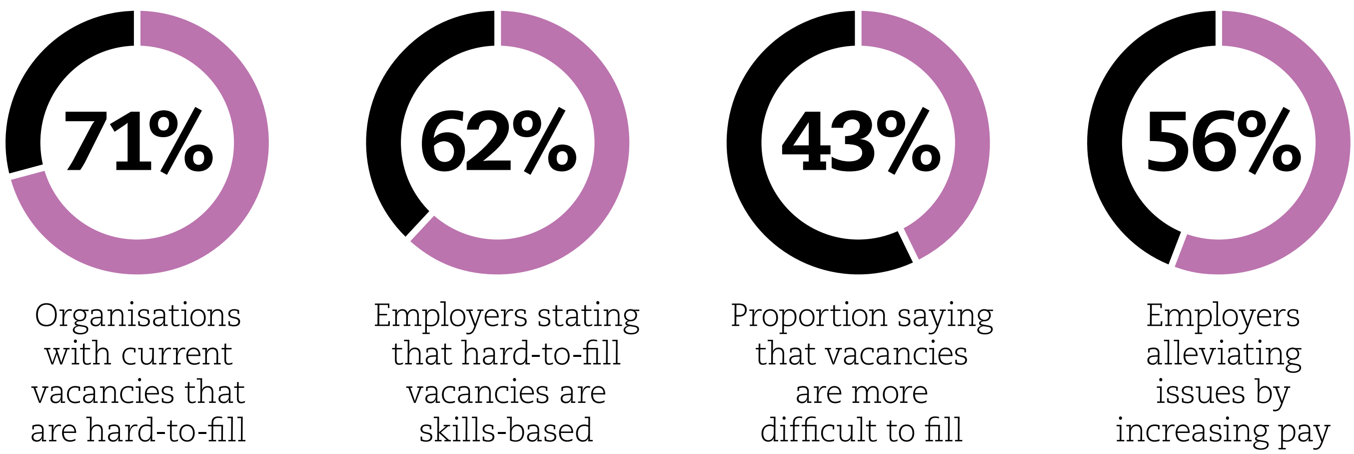
Carolyn Williams is IRM's director of corporate relations.

Trending

DATA

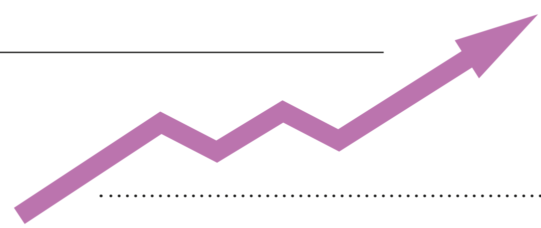
The latest stories and news affecting the wider business environment as interpreted by our infographics team

Skills-based job vacancies becoming difficult to fill

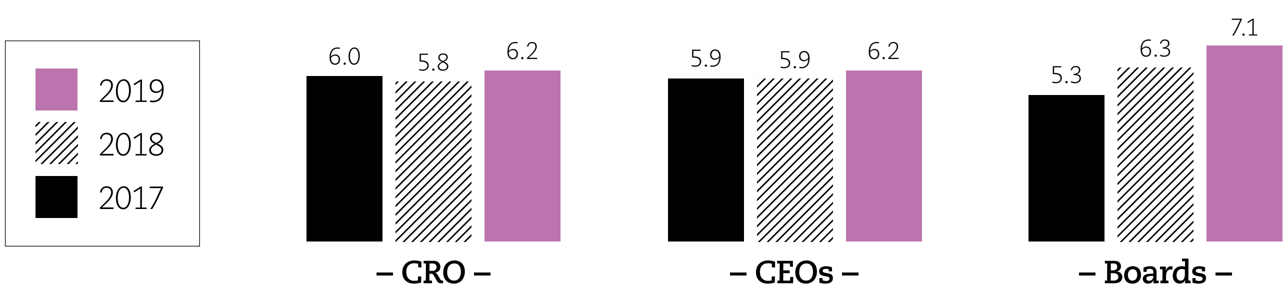


Source: CIPD, Labour market outlook, winter 2018-19

Boards resourcing expectations for risk management on the rise



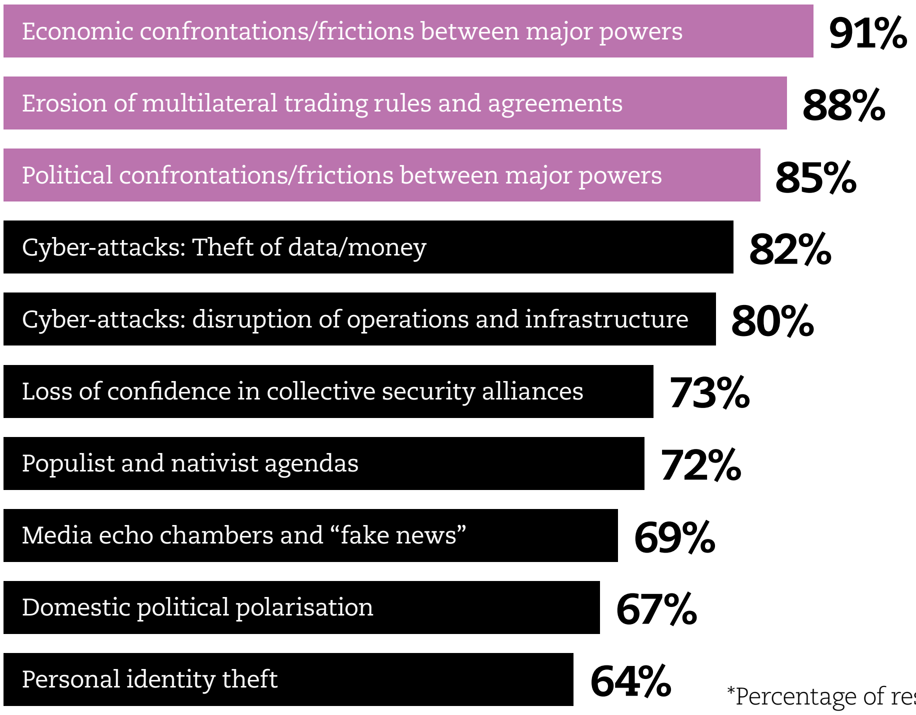
Likelihood that the organisation plans to devote additional resources to risk management over the next 12 months (10 is high, 1 is low)



Source: NC State/Protiviti, Executive perspectives on top risks 2019

Pessimism sets in over global tensions

Respondents to a major risk survey see increasing political and social risks growing in the short-term

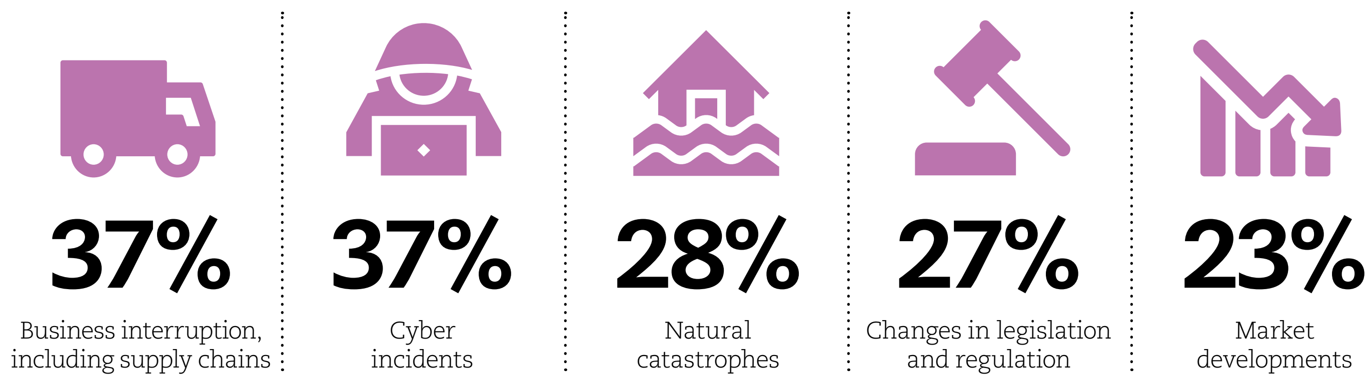


*Percentage of respondents expecting risks to increase in 2019

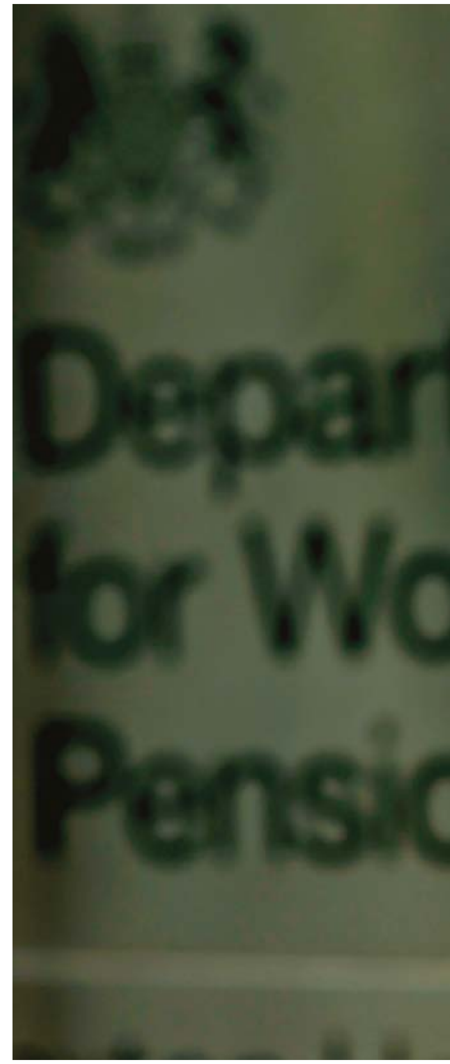
Source: World Economic Forum, The global risk report 2019

Business interruption and cyber risk top executive worry list

The most important business risks for corporations in 2019



Source: Allianz risk barometer 2019



Risk management is common sense

Jo Macdonald on meeting the challenges of change at the Department for Work and Pensions

BY ARTHUR PIPER

At the precise moment when Esther McVey stepped down as secretary of state for the Department for Work and Pensions (DWP) in November last year, Jo Macdonald – head of the risk management division at the department – was at the IRM's Risk Leaders Conference 2018 listening to a talk on political risk. It is an irony not lost on the genial Irish woman, but McVey is only one of seven secretaries Macdonald has worked in over the past nine years she has been in post.

> **Universal Credit is actually an extension of what we've always felt – it's what we're about**

"We're implementing the policy of the administration," she explains, "so while every secretary of state has their own personal priorities and brings their own emphasis to things, it doesn't really change the strategic goals."

Macdonald knows what she is talking about. She has seen big changes in policy direction, having experienced most flavours of administration – from a majority Labour government, through the country's years of coalition government, to Conservative majority and minority governments. While DWP has outlined its five main strategic objectives (see *DWP strategic objectives*), Macdonald says that working with a minority government has "slightly hindered" its ability to push through sweeping reforms to the way that the country's

benefits systems and pensions are administered. In addition, she says, parliamentary time is "a bit blocked up with Brexit negotiations."

Reform

The current administration is pushing ahead to introduce its flagship reform of the benefits system, Universal Credit. The idea is to replace a range of payments to those in need – such as Child Tax Credit, Housing Benefit, Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance and Working Tax Credit – with a single payment. Like all massive social reform projects, the long rollout has been difficult and subject to criticism since it was first announced in 2010. Most recently, the secretary of state at the time of writing, Amber Rudd, has admitted that administrative difficulties for recipients may have contributed to the rising use of food banks in the UK.

"Universal Credit is actually an extension of what we've always felt – it's what we're about," Macdonald says. "It's enabled us to engage more with working-age claimants, enabling them to either get themselves closer to work or to a better place with more rewarding work – and that has been challenging to deliver when the media has taken quite a hostile view to the whole reform."

While she says that DWP does listen and act on feedback, she acknowledges that the speed of its reaction may seem slow from the outside. A notable win, she says, was the department's ability to act to prevent veterans becoming worse off under Universal Credit than they would have been under Jobseeker's Allowance before the policy was launched. But the size of the organisation – it has 78,000 staff and shrinking – internal reforms and legacy IT systems play a part in DWP's ability to respond.

Upgrading the infrastructure

One of the advantages of introducing Universal Credit is that it allows DWP to migrate millions of people onto a 21st-century digital infrastructure. Both Universal Credit and Carer's Allowance were developed on new digital systems using agile working patterns. Jobseeker's Allowance and Employment Support Allowance are administered through systems developed in the 1970s. Switching people out of the latter into Universal Credit would require changes in policy enacted in legislation – hardly something private sector companies would need to worry about.

> **How do we truly migrate claimants onto new systems, or systems into a truly digital environment?**

"There's something oxymoronic about wanting to reduce, let's say, the core time of new claims when the adviser who is receiving the new claim over the phone will be going in and out of MS-DOS applications and literally writing in COBOL," Macdonald says. "The real opportunity is not just how do we overcome that, but how do we truly migrate claimants onto new systems, or systems into a truly digital environment? When we can achieve that, we will improve our efficiency, our productivity and the customer experience."

Fraud and error

DWP paid out £177 billion in benefits, pensions and social fund payments to about 20 million customers in 2017-2018, according to its *Annual report and accounts*. The percentage of money it loses annually to fraud or error is about 2 per cent, which is not bad for one of the largest financial institutions in Europe. But the monetary value of that loss is about £2.5 billion, making it an area of concentrated effort for the department. In 2017, DWP created the Council for Fraud and Compliance from the disparate initiatives across the organisation that were already dealing with those issues.

Bringing them together promises to help share intelligence and to create efficiency savings, as well as making sure the culture of the unit is fit for purpose. Macdonald says that while DWP is the target of organised crime and fraud, the line between fraud and error can be a narrow one, involving some sensitivity. "There is customer error and there are things like claimants forgetting to inform us of circumstances which would make a change to their entitlement," she says. "Some of our claimants' lives are so chaotic that actually they don't always think of the stuff we'd want them to and we don't want to say that it's fraud, so count it as error."

Complexity and simplicity

Given the scale and intricacy of these huge projects, it is just as well Macdonald likes complexity. But her risk management philosophy travels in the opposite direction – towards the simple. "Risk management is common sense," she says. "If there's anything getting in the way I want

to minimise its impact on me – most people do that in their daily lives. Having ownership of risk in that way is a key enabler for us to deliver our five departmental objectives."

Macdonald's approach is all about engagement, behaviour and culture. She ran a series of educational master classes among departmental staff aimed at making them comfortable with talking about what can go wrong and introducing basic risk management tools and techniques. When 15,000 people had been through the programme, she felt that it had reached a saturation point.

The next step was to test the risk maturity in different parts of the organisation and work to push that maturity up. On a scale of one to five, where five is high, she says quite a lot of departments are now on level four, some at three and "pockets" at level two. She is pleased that the engagement in the first line of defence – management – is there and that her team of 23 is seen positively as people who can help.

From April 1, the risk department is launching a new assurance model aimed at developing a risk and control self-assessment regime. Managers will be expected to know what risks they face and what controls are in place to mitigate them – and risk management will be pushing for action where controls are not adequate.

"We have taken the risk and control self-assessment model and recognised that we're not mature enough for the 'self' bit," she says. "Over time, I'm expecting that the process will mature and we can introduce the 'self' part back by saying, 'we've done this twice a year for two years now, so we can hand it over to you for you to do yourself'."

Culture and behaviour

Macdonald is less interested in models and more attuned to creating the right behaviours and culture across the enterprise. A few years ago, she had a behavioural psychologist on her team. They devised a task aimed at helping people understand their own risk appetites – a process she still uses on new leadership and project teams. The literature says that personal risk appetite is formed by the age of ten. While your adult self may suppress that behaviour, it comes out in times of crisis.

"By the age of ten, I'd lived through a civil war, my father had been shot at and nobody I knew had died," she says. "I have actually got a very high risk appetite because my learning is, I'm a wolf, I'll be alright."

Her project pairs people with the opposite risk appetites, and they have monthly calls or meetings to test how each person perceives the issues they face. Not surprisingly, Macdonald is paired with a worrier.

It is not just at the leadership level that she sees culture and behaviour as being important, though, but throughout the entire organisation. The possibility of poor conduct or fraud among staff is a reality that she acknowledges. DWP has 91 million personal records that is sensitive information, which is well protected. But staff may be Universal Credit beneficiaries, and their family may be too – many of their parents are state pensioners.

"Behaviourally, sometimes somebody will abuse their position for no apparent reason," she says. "When you get to the bottom of it, there's a reason of course, but if you don't understand those behaviours and

DEPARTMENT FOR WORK AND PENSIONS STRATEGIC OBJECTIVES

- Support economic growth and improved productivity by ensuring work always pays and people are supported to find and progress in work
- Help reduce the disadvantages faced by disabled people and people with health conditions through the welfare system and labour market
- Increase saving for, and security in, later life
- Maximise the number of children benefiting from an effective child maintenance arrangement, encouraging family-based arrangements where appropriate, and reduce parental conflict in families
- Transform the way we deliver our services to improve quality and reduce costs

Source: *DWP*

> Macdonald is less interested in models and more attuned to creating the right behaviours and culture across the enterprise

> I get all my energy from other people

you do not have the right culture, it's impossible to manage those risks."

E is for extrovert

Like many in the profession, Macdonald's route into risk management was circuitous. She bought herself out of a commission in the RAF and worked in insurance for a while, which she describes as "dull". "I thought that rather than paying for risks that happen, why don't I help in risk management and stop them happening in the first place? And that is much more interesting and exciting," she says.

It also suited her extrovert personality – she says she is ENTP among the Myers-Briggs personality type categories – a "visionary" scoring 59 out of 60 for the E – extroversion. "I get all my energy from other people," she says. As a director in risk management at Aon, she worked with a wide range of clients and over three years built its business risk consulting practice from scratch and turned it into a £2.8 million turnover enterprise. After 18 years, she was made redundant.

"I was taking my big fat cheque with one of my colleagues and we walked out of the building in Devonshire Square and we were like – 'what do I do? I'm not part of anything anymore'. We went to Wimbledon to be part of a crowd." A few years later, when she considered taking a role at DWP, she says there was something about the complexity of the organisation – its business model, its mission and delivery mechanisms – that attracted her. "I love being part of an organisation that is driving itself places," she says, "and to be around lots of people who are striving to achieve good things and risk management is helping them to get there."

At the time of this interview, Brexit was a short way off with no deal in sight. The withdrawal may impact benefit entitlements, not least to migrants. DWP depends on the Home Office for information on those migrants who may be eligible for benefits. Changes to the number of people out of work could also deeply impact the workings of the department.

Macdonald is hoping for a transition period so such issues can be worked out, but her personal view is that "it's complicated." Her job has been to make the department ready for change – whatever it may be. "And that's something that we as a department are actually quite good at," she says.

New wave

A new wave of risk managers have proactively chosen the profession as a career – unlike previous generations, who often fell into the industry by accident. *Enterprise Risk* discovers their hopes for the profession

BY ARTHUR PIPER

> An emerging group of risk managers is choosing risk first and hoping to build a career with the skills the profession offers

Many of today's risk leaders found themselves in the profession by accident, as they confess time and again in our cover story profiles. Today, though, an emerging group of risk managers is choosing risk first and hoping to build a career with the skills the profession offers. That was one of the messages to come out of a round table discussion with four risk managers at IRM's London offices earlier this year, and from a series of conversations with other members of risk's new generation.

"Risk is becoming a starting point in people's careers and gives them the skills to branch off and do other things," Esme Davis, lead risk manager at Nationwide Building Society, said.

Attendees at the round table discussion agreed that risk managers were able to bring their discipline to all parts of an organisation and help management deepen its thinking on risk, as well as being able to share best practice across the wider business. All said risk management had a big role to play in focusing on the positive things businesses could achieve through properly managing their risks.

Maturity and technology

Even though they were keen to stress the positive contribution risk management could make, they said

> In future, for risk management to really adopt technology there has to be a big improvement in the visualisation of risk information

Above left to right: Esme Davis, Lotty Thompson, Wesley Cadby, Karlene Agard

that the ability of risk managers to achieve these goals depended on the maturity and culture of the business – in conjunction with how risk management is positioned within the organisation.

"At the moment, we are building risk models to anticipate whether we can achieve the right outcomes – in the future, we will be using artificial intelligence," Karlene Agard, senior risk and value management consultant at ARAVUN, said. "Once you have that capability, it is likely to change some of the skills the risk team needs."

All agreed that innovation in risk management technology was too slow. "Risk technology hasn't really advanced in comparison to other areas – especially when it comes to things like collaboration and integration tools," Wesley Cadby, group head of risk management at J Murphy & Sons, said. "In future, for risk management to really adopt technology there has to be a big improvement in the visualisation of risk information."

Diversity

While diversity has been a slow issue to surface in boardrooms, it is a hot topic for the new wave of risk

KARLENE AGARD

GradIRM, senior risk and value management consultant, ARAVUN

Karlene has been in risk for eight years. "I've always been analytically minded and I appreciate that risk management merges analytical rigour with talking to people in the business to find out what's most important."

Advice to junior risk managers: "Make sure you understand the purpose of what people are doing and why they are doing things in a particular way. You can then ask if there is a better way of achieving those goals."

WESLEY CADBY

CMIRM, group head of risk management, J Murphy & Sons

Wesley has been in risk for nine years. "I fell out of love with being a project manager and I got into risk to help projects manage risk – it is about enabling people to understand what can go wrong or right with their delivery."

Advice to junior risk managers: "Embed yourself in the business you are in so you thoroughly understand it – being a key, integral part of that business is much better than giving advice from a detached viewpoint."

> **When people find out what risk management is, they are really enthusiastic**

ESME DAVIS

IRMCert, lead risk manager at Nationwide Building Society

Esme has been in risk for ten years. "I got into risk because I like doing lots of different things and risk is a lynch-pin that hangs it all together – from management to decision-making, all the way through to robotics and analytics, it gives you a good foot in the door."

Advice to junior risk managers: "You have to be brave and sometimes be the only voice in the room with an opposing opinion and that should be okay because it is your job. If that's not okay, it's them not you!"

managers. "Culturally, we know there are too many businesses that are still run by a traditionally privileged class of people – so there is a diversity and inclusion issue about how organisations think," Davis said.

That feeds through to issues as broad as promotion prospects and working patterns to the way risk managers communicate. "Historically, risk management has been driven by the requirements of a small population of like-minded people and that creates our requirements to do things in the same way," Davis said. "People coming into this field as their first choice are asking why – and this will be a driver and catalyst for change."

Learning and development

"I find that our risk team is really diverse and I feel there is a change coming," Lotty Thompson, risk specialist at Capital One, said. She acts as a mentor to the people coming into risk management on Capital One's risk management graduate programme – all of whom have been women in the last few years.

The group said that they would like to see more visibility for risk management at careers fairs and in graduate schemes, trainee schemes and apprenticeships. "When people find out what risk management is, they are really enthusiastic," Thompson said. "It's making sure they hear about it."

All opinions expressed are the attendees' and do not represent the views of their employers.

LOTTY THOMPSON

Risk specialist, Capital One

Lotty has been in risk management for three years and is currently sitting for IRM Diploma. "I liked the sound of risk management because I could be analytical and act almost as a consultant to the business – and I wanted to enter a career with longer-term prospects."

Advice to junior risk managers: "Don't be afraid to challenge the status quo – suggest something else and try different things as it will help move risk management forward."

Below: IRM chief operating officer Chris Glennie, Esme Davis and Wes Cadby sharing a joke at the roundtable session

Risk management has become more international over the past decade, which has seen young professionals entering an industry that was previously under-recognised and under-resourced. Jo Powell speaks to the new wave of risk managers about their route into the profession, qualifications, skills and aspirations

Andrew Gray

Corporate business (risk) at Marsh; IRM Scotland Group committee member

Andrew Gray began his work life in 2004 as a 17-year-old apprentice plumber and gas fitter. After eight years in manual roles, he looked at the future and the potential physical toll of his work and decided to make a change.

Believing that to maximise his job prospects he needed a degree, Gray spent a year on a national study course to enable him to go to university. He chose the risk management degree at Glasgow Caledonian University as it had excellent connections and the degree is well known within the industry, improving the chances of finding work on graduation.

"I felt my previous work in construction was helpful experience with transferable skills and knowledge," says Gray. "I also learnt through the degree and the events I attended that for many risk managers there is a lot of engagement from the shop floor to board level and that it's key to adapt and speak to people in their own language – to understand how a stakeholder thinks and how things look from the other side of the table.

"I decided to take advantage of the free IRM membership offered while I was at university, making connections and putting myself in front of people, and learning what risk is like outside of the classroom."

> **You can travel the world and take your qualifications with you**

During his time at university, Gray was involved in a school mentoring scheme, going into secondary schools to talk to those thinking about their next step. "Most of the young people had never heard of risk management. There is more to be done in that space, informing the next generation, and bringing risk into the same professional sphere as law and accountancy."

Gray says that, within risk, the wealth of opportunity is phenomenal. "There are global opportunities, as you can travel the world and take your qualifications with you. Risk management offers a wide variety of different avenues – not just rewarding salaries but interesting jobs too."

Nombuyiselo Nyembezi

Fixed assets accountant, Engen Petroleum, South Africa; IRM certificate student

The variety of daily work was what attracted Nombuyiselo Nyembezi to move into risk after she took part in a graduate programme following on from a BCom accounting degree.

She says: "After taking the accounting degree, I knew I wanted to do something different, so I decided to join the graduate programme with Engen Petroleum and spent the first eight months in finance, governance, risk and compliance. During that time, I was part of the financial controls framework audit.

"That's where I learnt about risk management and the increasing demands on risk professionals."

Nyembezi highlights two very practical challenges facing businesses today in which she feels risk management has a key role to play – IT risks (including hacking) and fraud. "We need to move towards more digital risk management because technology is taking over the world. Risk professionals can help by introducing controls that will minimise these risks, such as not allowing employees to use USBs on their company PCs and asking employees to disclose their sources of income in order to avoid conflict of interest, especially for procurement reasons."

> **There are so many career options and opportunities to grow**

However, moving forwards she thinks the profession should also increase its focus on enterprise risk management because many young entrepreneurs do not have enough knowledge about risks that come with technology and how they can be prevented or minimised.

Nyembezi says she would like to become a risk specialist or risk manager in one of the Big Four auditing firms or an insurance company. "In that way I will work with different clients from different economic sectors. One of the things I like about risk management is that you don't do the same thing every day; you take part in different projects, get involved in decision-making and work with different people. There are so many career options, areas of specialisation and opportunities to grow."

Chris Hanlon

Risk product manager, CalQRisk software solution and consultancy, Republic of Ireland; IRM certified member

Chris Hanlon entered the risk profession through the academic route, after choosing it as the focus within his business degree while studying at the University of Limerick. He went to CalQRisk for work experience and never left.

He says: "I chose risk management because of the variety of work involved and the job opportunities. I don't know whether it's true, but I felt that something like accountancy would be more siloed. The opportunities in risk are very broad – from finance to local authority to healthcare; they are all looking for risk management expertise."

Risk management has become the norm for all regulated organisations, and Hanlon feels that the career opportunities are limitless. This is reflected by the new educational courses being offered every day, with IRM in particular being active in that area.

He sees the biggest challenge facing companies currently as the pace of change and associated underlying uncertainty. He says: "Brexit-related risks are high on the risk registers here in Ireland at the moment, especially in industries such as finance and transport.

Risk managers need to be involved in all aspects of a project

"Another challenge is digitalisation. Work on digital developments such as new apps can no longer just involve software development teams; risk managers will also need to be involved in all steps of a project."

The risk management profession needs to better demonstrate its own values to organisations according to Hanlon, but so far there is no formula for doing that. "The sooner risk professionals convince others that risk management is a good thing to do – not just a thing they have to do – the better," says Hanlon.

"It's incredibly difficult to change views on the value and core purpose of risk management with regulators ruling with an iron fist, but we must encourage organisations to link risks to the strategic plan rather than just the regulations. Risk management professionals are able to help the CEO and CFO much more than many are being allowed to today, and we need to show that."

Elizabeth Wybrants

Enterprise risk officer, DAS UK Group; IRM International Certificate in Financial Services Risk Management

Elizabeth Wybrants completed an advanced apprenticeship in life, pensions and investment while working for Zurich Insurance, but after three years with the company she fancied something a bit different. She had enjoyed her role as the team's risk champion, and when the opportunity to get more involved in risk came up in the form of a junior risk analyst role she jumped at the chance.

"A friend in risk had told me that they were blown away by how involved they became even early on, learning in areas like finance, risk and control," says Wybrants. "Even in a junior role I had access to senior members of the organisation and understood the business needs, strategy and how it works at the top compared to others in junior roles."

In the longer term she would love to lead a risk team and coach junior members – saying that she has received such valuable support from senior members and would like to give back. "I also like the idea of starting in risk consultancy when I have the experience, meeting new people from different firms and industries – constant consulting means constant learning and problem solving as no one size fits all."

Risk managers need to "get stuck in"

One challenge Wybrants has experienced is the struggle to get a whole business on board with understanding risk management and its tools. Once people understand the role of a risk manager, she believes they become more proactive and not afraid to share.

> **In risk you have a right to be curious**

"We need to get involved through informal chats, influencing and embedding risk management into the culture," says Wybrants. "Risk professionals should be getting stuck in and getting involved rather than implementing a 'slap on the wrist' culture. We can't just sit behind desks writing reports; we need to get out there and develop face-to-face relationships.

"As a risk officer or manager you have a right to be curious, to ask and to understand. The knowledge you receive is incomparable."

Raphael Buttigieg

Compliance and OpRisk officer, Munich Re Group, Malta; youngest IRM certified member

Raphael Buttigieg joined the insurance industry six years ago, initially in broking and claims-handling roles. When an opportunity to focus on risk came up while he was working with Marsh, a global leader in insurance and risk management, he decided to make the move and gain a better understanding of what risk is all about.

To back up his experience, Buttigieg decided to obtain an official qualification and chose the IRM certification because of its focus on enterprise risk management and its holistic approach to risk. In 2018 he became IRM's youngest certified member.

Buttigieg says that part of the attraction of risk is that professionals in this area don't work in silos. In his current role at Munich Re, he works closely with various departments including finance and underwriting. "People working in risk management aren't lone workers with no wider interaction," he says. "They need to work with others to understand the mechanics of a business to be sure all is working well or to highlight where risks are worsening, and on the quantitative side, they really need to understand the numbers."

Risk managers need to embrace uncertainty

The profession needs to reposition itself from being considered risk averse to embracing uncertainty and being confident, says Buttigieg. He also points to a need for risk professionals to show leadership and have an open mind.

"I've been in risk management for four years now," says Buttigieg. "While I have developed quite an insight into the different qualitative and quantitative approaches to risk management, I'm still looking to develop a deeper understanding and to gain as much knowledge as possible from people with more experience, so I can learn leadership skills and be at the forefront of developments."

He adds that the beauty of risk management is that he's heavily involved in the strategy of a company, working with the people who are taking decisions. "It's an exciting place to be."

All views expressed are the interviewees' own.

Refocusing risk governance

Last year's overhaul of the UK Corporate Governance Code has important and far-reaching implications for both boards and risk managers

BY MARK BUTTERWORTH

More than 25 years ago we saw the publication of the first UK Corporate Governance Code (the Cadbury Code), and it's fair to say that since then corporate governance practices have never stayed static for long – with updates largely every two years over that period. But in the Code update consultation process for 2018 announced by the Financial Reporting Council, notice was given that this time meaningful changes were planned. Not all of the changes floated in the consultation were carried through to the published edition, but notable areas of governance development were readily supported and adopted.

Risk managers will need to consider how they will adjust their risk management practices to ensure the emerging or upgraded features of the new Code receive appropriate focus. While culture management has been high on the governance and risk agenda for a number of years, the formalisation of Code expectations means there is more that risk managers should be doing in terms of tangible risk culture actions.

> The challenge to the risk function is to build a relationship with workforce representatives that results in effective two-way communication

Risk culture

The main thrust of risk culture management is designing and applying culture metrics upon which the risk function

> The formalisation of Code expectations means there is more that risk managers should be doing in terms of tangible risk culture actions

can create purposeful reports to senior managers and the board. These metrics may include accident and other risk events, staff turnover and absenteeism relative to industry norms, attendance at required training sessions and customer complaints and actions taken following audit recommendations. Risk culture profiling tools are now available and should be adopted by risk managers who wish to build a base case of culture and apply periodic improvement assessments. Such tools also provide a quantified platform for discussion with the board, rather than soft factors alone.

Risk managers have a clear understanding that in order to sustain an enterprise-wide approach to risk management they need to consider the risk perspectives of all stakeholders – these might be shareholders, regulators, suppliers and customers, and many more. The 2018 Code now requires boards to engage with the workforce and to use one or a combination of three methods: a director appointed from the workforce, a formal workforce advisory panel and/or a designated non-executive director.

The advantages this could bring to risk management are formalised routes for the workforce to raise concerns about operational risks and the design and effectiveness of the control environment. Also, any concerns about the culture within the organisation can be aired through workforce liaison. However, the challenge to the risk function is to build a relationship with workforce representatives that results in effective two-way communication. The risk manager may have to introduce a broader risk management induction programme and develop the internal risk-briefing approach so that the risk strategy is clearly understood by all concerned, and conversely the workforce views on risk appetite are shared with the risk manager.

Effectiveness

A significant feature of the 2018 review and consultation has been the elevation of the FRC's Guidance on board effectiveness to a position that should be regarded as of equal importance as the Code itself. The stated aim of the FRC to "shorten and sharpen" the Code resulted in some important governance requirements being transferred to the updated guidance. Risk managers will need to have a detailed awareness of the guidance and develop risk management strategies that link clearly with board operations. In fact, the guidance goes beyond simply providing a checklist of must-do's by boards and leads directors to ask what circumstances, or risks, can result in below-standard board effectiveness.

Greater importance has been given to evaluation of board performance (or "effectiveness"), with a formal and rigorous internal annual review (often a short questionnaire-based review by the company secretary), as well as the all-important independent external evaluation. Ideally this should take place every two or three years and be carried out by a governance specialist with no conflicts of interest – certainly not your external auditor.

This external review should allow the reviewer to have direct contact with all directors, plus certain key individuals such as the head of audit, company secretary and head of risk management. But why are these reviews of such importance to the risk manager? The answer lies in the analysis of corporate

> **The risk manager must place board reviews high on the list of key actions to be carried out each year, with a clear time frame and an appropriate budget**

failures (or significant stress), where commentators often cite an ineffective board as the core reason for the problems. Better boards can be expected to address their operations in a structured and diligent way, with the risk culture clearly stated and complied with by all concerned.

Ownership

The question arises as to who owns the board evaluation process and makes sure it is carried out at the right time and with an appropriate agenda and thoroughness. While company secretaries have a traditional role here, it is the risk manager that has the greater interest in the evaluation findings and actions that are recommended. Therefore, the risk manager must place board reviews high on the list of key actions to be carried out each year, with a clear time frame and an appropriate budget. The role of the chair is made paramount in acting on the results of the evaluations and being prepared to report to stakeholders details of the process undertaken and the external firm used.

Those firms who undertake regular external board performance evaluations may well find to their advantage that they are able to demonstrate to their directors' and officers' liability insurers that the governance culture warrants the best terms possible. Risk managers whose role includes managing the business insurance programme will be keen to demonstrate value through lower premiums and good standards of cover.

Guidance on board effectiveness also emphasises that the board is responsible for setting the company's purpose and that "a well-defined purpose will help companies … articulate their approach to risk". The risk function needs to have regular and productive lines of communication with the board and provide high-quality risk analysis and reporting.

Another challenging implication of the 2018 Code is the more demanding role for the remuneration committee of the board and the remuneration framework. The FRC's emphasis is on ensuring the remuneration policies and practices are closely aligned with the long-term success of the organisation and play their part in delivering the firm's strategy. Risk managers must assess the degree to which remuneration structures incentivise the right behaviours, particularly in sales and client service. Also, given the increased responsibilities of the remuneration committee, more frequent interaction between the risk function and the chair and members of the committee (such as risk brainstorming) should be introduced.

Succession planning

The risk manager should keep a close eye on board succession planning and diversity in the board appointment pipeline. Commentary on the new Code has noted the need for diversity to start with upcoming managers and potential future directors. The importance of developing a diverse range of skills, experiences and outlooks for an effective board is well established – what the risk manager will focus on is the coherence of the attitudes to risk and the ability to build a unified risk strategy that is bought into by all members of the board. Risk managers may well add a new risk to their risk inventory – the failure to develop a diverse management team – with the consequences ranging from negative publicity and an unhappy workforce to losing market position as other organisations capitalise on the benefits diversity brings.

The UK corporate governance code has been widely emulated across the world (perhaps less so in the US), and it is sensible to expect the same for this edition. Non-UK regulators are likely to set higher standards for board effectiveness – linking strategy and risk more closely and setting more detailed risk reporting requirements.

The 2018 revisions to The UK corporate governance code have introduced relatively few changes to the specific section on audit, risk and internal control. Risk managers should, however, see the wider changes as an expansion of the concept of a risk management maturity model, where new risk and governance approaches, relationships, risk analysis and monitoring and reporting are all enhanced. In particular, firms must report how they are addressing emerging risks, as well as discuss the principal risks and uncertainties. Tracking the organisation's progress on a risk maturity model enables the risk function, as well as the board, to set a plan of action that will deliver a more resilient and productive firm, with a clear risk strategy. The risk picture is expanding and with it the expectation for broader business skills from risk managers and the ability to work at a strategic level, with all members of the board. ER

Mark Butterworth is managing director of the governance and risk consultancy Condie.

Articulating risk

Risk appetite is a key resource for decision making, but too often it can be vaguely expressed and difficult to measure

BY DAVID TATTAM

Setting an organisation's risk appetite is a critical component of a robust risk management framework. The appetite should be the articulation of the board's desire or willingness to take on or retain risk using measurable factors. It should directly assist in the risk and control self-assessment and key risk indicator processes to group risks into zones, such as red, amber and green, which then leads to either risk acceptance or action required.

Defined

There are a number of definitions of risk appetite. The ISO 31000 risk management standard refers to risk appetite as the "amount and type of risk that an organisation is prepared to pursue, retain or take".

Applying this concept to risks that provide a direct upside opportunity, such as market risk (the risk of profit or loss from a movement in market rates such as interest rates or foreign exchange rates), makes sense. You may be hungry to pursue, retain or take market risk with the objective of profiting directly from that risk. In this instance, the setting of an appetite can be articulated by setting a maximum risk limit such as interest rate sensitivity or value at risk.

But for risks that only possess a direct downside – such as operational risk – the literal interpretation of appetite makes little sense. Downside risks are a part of doing business, and we realise that in order to pursue business, we need to be able to tolerate a certain level of risk as the cost of elimination may be uneconomic. As a result, we tend to use the term appetite for risks that have a direct upside, such as market risk, and tolerance for risks that only have a direct downside.

Method

There is no one method to articulate and set risk appetite. Whatever method is used should be owned by the board – the Financial Reporting Council's *Guidance on board effectiveness* makes this responsibility clear – and reflect the collective informed views of the board.

The risk appetite should be articulated in measurable terms. The use of subjective measures such as high, medium and low are not adequate as these measures mean different things to different people. We suggest that firstly an overall appetite for total risk should be articulated in terms of acceptable variance in the organisation's objectives and budgets. For example, this might say that the company is willing to tolerate a minimum return on capital of 4 per cent against a budget of 10 per cent. The next step is to determine the risk categories for which an appetite will be set. This should cover all material risks.

> **Many organisations phrase their risk appetite in vague subjective ways that do not lend themselves to practical use in risk evaluation**

A separate risk category will be required when either the measurement factors for each risk is different, or the level of appetite for each risk is different. The next step is to determine the measurement factors for each risk that will be used to articulate the appetite. Each risk may require multiple measurement factors in order to adequately cover the risk.

The results of the risk appetite process should be documented in the risk appetite statement, covering each risk category for which an appetite is set, together with the measurement factors used to monitor the appetite. The appetite should then be reflected in the risk management policies, used in risk evaluation and form the basis of board reporting.

David Tattam is director of research and training at Protecht, the enterprise risk management and services company. www.protechtgroup.com

Making the case

Risk managers have a bigger role to play in creating value in their organisations by getting involved in business case analysis

BY DAVID WORSLEY

A risk professional's attention is often absorbed in the management of ongoing operations or live projects. While at Network Rail, most of my team's time was used performing schedule-risk analysis for infrastructure works undertaken overnight or at weekends. Primavera Risk Analysis software was used to model engineering activities in units of 15 minutes, and an understanding of critical paths and planning logic was required. The principal risks would usually include relatively predictable threats such as equipment failure or severe weather.

However, earlier in the life cycle of the same projects, risk assessments were undertaken years in advance of the physical works. This was partly to pursue the so-called "left shift" in project risk management, where risks are identified earlier and can be treated more efficiently. But another reason was to inform decisions as to whether projects should proceed at all. Risk assessment for project business cases is a particular specialism, and I believe that this activity forms a crucial link between project and corporate risk management, while also presenting an opportunity for risk managers to broaden their skillset.

> **The biggest project risk is often that you may be doing the wrong project**

Governance

Asset management organisations generally mandate that projects on their infrastructure follow detailed

> Project risk managers should become much more knowledgeable about how business cases are assembled

governance procedures. The diagrams (see *Governance processes*) show the similarities between Network Rail's Governance for Railway Investment Projects (GRIP) process and Highways England's Project Control Framework (PCF). Similar systems exist in the energy and water industries, while UK government bodies often use PRINCE2. Project risk professionals thus spend their days identifying at which stages risks are likely to occur and allocating appropriate treatments.

The earliest stages of these processes – development rather than implementation – effectively form a sub-project, one aspect of which is the assembly of the business case, without which approval to proceed should not be granted. For UK transport projects, this includes an explanation of how the project will be funded and managed, and also its strategic alignment with other proposed projects. However, the most detailed aspect of the business case will most likely be the economic case, which demonstrates that the project provides value for money.

Business cases thus involve the seemingly arcane fields of cost–benefit analysis and demand forecasting. These are nevertheless easy to understand in practical terms, as the benefits to society provided by infrastructure projects will generally be directly proportional to the number of people using them. The simplest definition of a risk that I have encountered is "an uncertainty that matters", and when justifying capital expenditure, unpredictability about what the benefits will be is as important as cost overruns. Perhaps the most influential book in the field of project risk management was Bent Flyvbjerg's *Megaprojects and risk* (2003), which examined case studies for projects which had both cost much more than anticipated while also enjoying unexpectedly low initial patronage.

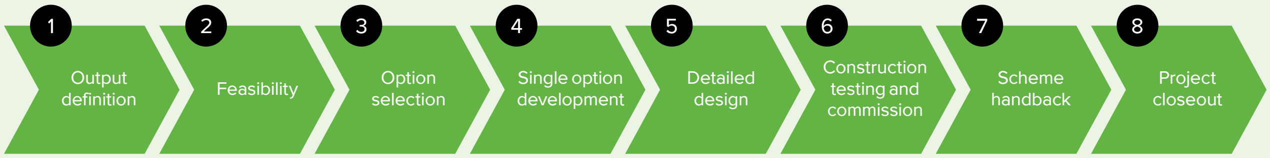
British examples included the Tyne and Wear Metro (started in the early 1980s), which cost 55 per cent more than expected while only attracting 50 per cent of the initial demand forecast, and the Channel Tunnel, which experienced an 80 per cent cost overrun, but similarly only carried about half the number of anticipated passengers 20 years after its 1994 opening. The worst appraisal failure was arguably the Humber Bridge (finished in 1981), which cost almost three times as much as estimated and only attracted 25 per cent of the initial traffic forecast.

Opportunities

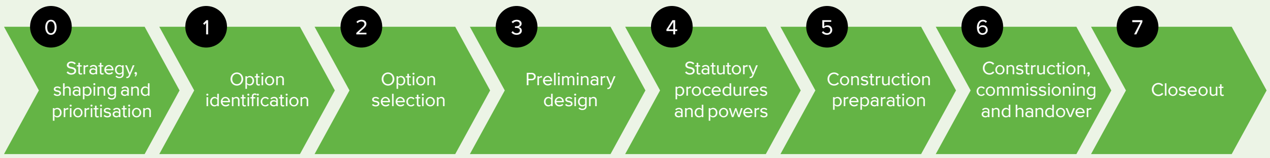
Governance processes provide opportunities (often called "gates") at which potentially uneconomic projects could be terminated. Had the true capital cost and demand levels been anticipated for these examples, they would probably never have been approved by the government. For outstanding technical achievements such as the

GOVERNANCE PROCESSES

Network Rail GRIP process



Highways England PCF process



Source: *David Worsley*

> Many risk professionals may in fact be closer to developing a sideline in business cases than they think

Humber Bridge and Channel Tunnel, this might be seen as a pity by some, as the completed projects can be a source of regional and national pride. Indeed, Flyvbjerg's conclusion was that there is intense political pressure on project developers to provide optimistic forecasts, with demand and benefits being inflated and costs being downplayed through the use of unrealistic assumptions – a tactic euphemistically called "strategic misrepresentation".

Although these costs can be transferred to the long-suffering taxpayer at a national level, the corporate consequences of unrealistic business cases can be catastrophic. The inaccuracies in cost and demand forecasting for the Channel Tunnel gradually destroyed 95 per cent of Eurotunnel's share price between 1989 and 1997. Later, the combination of cost overruns and failure to deliver full functionality on the modernisation programmes for first the West Coast Main Line and more recently the Great Western route fuelled calls for Network Rail to be broken up or reintegrated with the train operators. For this reason, corporate risk systems (such as Network Rail's 2015 enterprise risk and value management framework) should include the assessment of project threats alongside other categories of risk (for example, operational, organisational and financial). The biggest project risk is often that you may be doing the wrong project, so processes should enable the escalation of serious risks through the layers of programme and portfolio management to reach the attention of executive decision-makers.

I believe that risk managers can further alleviate this problem. Risk professionals are usually required by governance procedures to assist business case development, but this is often only by contributing to the capital cost estimates. A quantitative cost risk assessment (QCRA) workshop will be undertaken, and the mean output from Monte Carlo modelling will be entered into the project's cost–benefit analysis. Although the business case report may include an S-curve and some indication of the project's "top risks", it is likely that senior decision-makers will focus on the mean risk exposure as part of capital costs. As a result, the potential significance of low-probability high-impact risks and uncertainties around how the benefits were calculated may be overlooked.

Business cases

Project risk managers should become much more knowledgeable about how business cases are assembled, especially with regard to the calculation of value for money. Indeed, for risk professionals who have several years of experience, and are looking to expand their expertise, becoming a business case expert could be rewarding for both themselves and their organisation. This may sound daunting, as at first glance cost–benefit analysis can seem a vast topic. Nevertheless, many risk managers have a talent for quantitative analysis and are already adept at building complex models of project costs and schedules. Adding the calculation of benefits to this skillset need not be onerous. In my own experience, when the opportunity arose back in 2009 I began performing the functions of an economic analyst at Network Rail after only three days of training and soon built simple business cases for timetable changes and small infrastructure enhancements.

Subsequent on-the-job experience and wider reading has enabled me to make business case preparation the main specialism of my current role, with risk assessment remaining as a supplementary service. However, understanding the methods by which benefits are calculated in my own industry has allowed me to identify new risks to the viability of projects. Transport appraisal is beset by numerous controversies, including how passengers' time should be valued, how demand is forecast and what techniques should be used for assessing the wider economic impact of transport on employment markets and land use. Different stakeholders hold conflicting views as to which methods are acceptable, adding a political dimension to these technical risks.

Closer than you think

Many risk professionals may in fact be closer to developing a sideline in business cases than they think, since many firms combine risk management with value management at an organisational level. Asset management companies such as Southern Water, UK Power Networks, Yorkshire Water and Network Rail integrate the two disciplines and train their professionals to facilitate workshops in both. Reflecting this, engineering consultancies such as WSP, Atkins, Jacobs and Arup provide combined risk and value management services, as do general business advisors such as Deloitte and PwC.

The purpose of value management, namely the optimisation of the ratio of function (or benefits) to the use of resources (or costs), is essentially the same as the maximisation of the benefit-to-cost ratio in a business case. Meanwhile, the tools employed by value management practitioners are recognised as valid components of business cases; function analysis can help to clarify the objectives of a project, while multi-criteria analysis (sometimes known as criteria weighting technique) can be used to sift and select options. Industry-specific techniques for cost–benefit analysis are also recognised as part of the scope of the value management profession, as described by Steve Parker, the former chair of the Institute of Value Management, in the February 2016 edition of that organisation's journal.

The greatest benefit of such upskilling could accrue to the organisations that employ risk managers. The largest projects currently strengthen their business case analysis by including sensitivity tests in their results. For example, the initial (2011) base scenario benefit-to-cost ratio for High Speed 2 was calculated as 1.6, representing "medium value-for-money" in the Department for Transport's view. However, this was published alongside results where key assumptions were adjusted, with the benefit-to-cost ratio thereby varying from a poor 0.7 (in a scenario where rail demand reaches a plateau in the late 2020s) to a high of 2.7 (where high fuel duty and air fares are assumed to drive people away from competing modes of transport). These techniques of assumptions and scenario analysis – the consideration of alternative futures and how they may impact projects – are already familiar to risk professionals. The deployment of these tools more widely would thus allow small and medium-sized schemes to enjoy the deeper analysis that megaprojects currently receive.

Furthermore, risk professionals would be comfortable presenting benefit-to-cost ratios for a variety of project options as probability distributions rather than a single "average" figure, thus highlighting those projects where there is a higher level of uncertainty or significant low-probability high-impact threats. Organisations could thereby consider their risk appetites in a more informed way.

Executive decision-makers may deliberately choose to pursue a project with a lower "average" benefit-to-cost ratio, if by doing so they avoided an option which carried a higher risk of either very poor benefits or very high costs, and the accompanying financial and reputational damage. The deployment of more risk expertise into project business cases could thereby achieve the oft-cited goal of ensuring that risk management is fully integrated into business decision-making, rather than being a bolt-on process.

David Worsley (FIRM) is an associate director in transport planning at WSP and visiting lecturer at the Centre for Railway Research at Newcastle University. He was formerly risk and value manager for Network Rail's London North Eastern Route.

> **Techniques of assumptions and scenario analysis – the consideration of alternative futures and how they may impact projects – are already familiar to risk professionals**

From saint to sinner

A recent IRM study – *Fuelling the debate* – on the oil and gas industry offers a wide range of lessons for all risk managers, not least on reputational risk

BY HANS LÆSSØE

The term reputational risk is heard more and more frequently, and the increasing use of social media highlights the importance for any organisation to have a deliberate stand on its reputation and ensure this is being managed.

Reputational risk is not one risk but a category of risks that may impact reputation. You do not wake up one morning and have a bad reputation – something happened prior to that to generate the bad reputation. The real risk emerges from "what happens". Furthermore, it is important to note that the incidents inviting reputational demise may not be of your own doing or influence, which is among the reasons the term gets the attention it does at present. The fact that you cannot control third party actions does not mean that risks cannot be mitigated.

> Reputational risk is not one risk but a category of risks that may impact reputation

Drivers

Naturally, the organisation itself is the prime driver of sources of reputational risk. Any diversion from a safe and prudent, well-managed and honest leadership map invites reputational risk. Logically, behaving badly drives a poor reputation. The most impactful of these behaviours is being in breach of laws and defined regulations,

> **The fact that you cannot control third party actions does not mean that risks cannot be mitigated**

especially if it is at the expense of the "little guy", for example, the shop floor worker. Health and safety violations create a bad reputation fast, as does unethical behaviour – such as using child labour.

If what a business delivers is not safe in use or in foreseeable misuse, its reputation will be at risk. Product safety requirements must be adhered to, in order to safeguard reputation. While, for example, Smith & Wesson making guns does not automatically create a bad reputation, making a toy that leads to the death of a child could be devastating.

Products can be used for other purposes than intended, and when this happens the reputation of the manufacturer is at risk. The Danish pharmaceutical company Lundbeck manufactures a sedative, which it asked US authorities in 2011 not to use as part of the "lethal injection" process in the country's prisons – a use it had not planned or approved.

Arrogance or insensitivity in communications or actions also create reputational risk. For example, when BP experienced the Deepwater Horizon accident, it first accepted full responsibility and promised full recovery. However, when newspapers began reporting that the accident was partly a consequence of a consistent cost cutting, the hammer of bad reputation hit.

Speed

Handling issues with speed requires preparation. One important mitigation is knowing who will address any issue – and making sure these people can team up fast at any time. This calls for explicit and well-prepared reputational risk management.

Business impact may emerge suddenly and may vanish just as quickly. Most often it happens slowly. Dents in reputation tend to be remembered, depending on the company's defined image, reputation and industry. The loss of credibility will often have an immediate effect on an organisation's stock value as stock brokers race to embed new insights first. Losing stock value hampers the company's manoeuvrability and hence long-term prosperity.

Sales may be impacted by customers "banning" the relevant products. This will naturally lead to loss of profits as well. Collaboration with vendors and partners can be hampered, and an organisation can be met with increasing demands for documentation and other issues of "red tape" based on reduced trust on behalf of its partners. In addition, the business may stand to lose employees who will not work for a company that indulges in harmful behaviours – and it will be the best people who will resign from the company first, leaving you with a "B" team.

Being ready

Having a strong and positive reputation is a strength, but it also increases the impact of loss. Businesses must be able to act fast, effectively and be perceived as doing the right thing. Companies need some metrics of what "high" impact on reputational risk look like, as they will be acting too late if they measure them in the annual report.

Scaling is a core competence for experienced risk managers – and at the end of the day, a managerial choice of risk tolerance. Having a pre-defined team, with pre-defined reference frames and full authority to act, is pivotal to good handling of reputational risk. In some instances, a response must be visible world-wide within hours. It is highly recommended to form task forces, and to have them conduct "fire drills" every now and then to ensure efficiency.

It is also recommended to imagine a set of risk scenarios – and discuss these prior to their potential emergence. Soldiers do this all the time on safety. All routine tasks are rehearsed and rehearsed to an almost ridiculous extent – to ensure that, in the midst of a crisis, doing these routine tasks is automatic. This approach can be applied by companies for reputational risks as well.

Finally, businesses can be pre-emptive. Doing good for the community, being open and honest, and driving a stable, profitable business helps. Having your reputation "at heart" and remembering this when deciding on strategies and business initiatives is well worth the effort – and may even serve to safeguard your profitability more than a mere commercial focus.

For more information about joining IRM's Energy Special Interest Group, please email marketing@theirm.org or visit: theirm.org/energy. Download *Fuelling the debate: latest risk management trends in the energy sector 2019*: bit.ly/2ECeZf7. Hans Læssøe is a principal at the consultancy AKTUS.

Joining the dots

When Wesley Cadby, group head of risk management at J Murphy & Sons, won IRM's risk manager of the year award in November 2018 he was delighted. But the path to success was not smooth

Wes Cadby

In many ways, Wesley Cadby's decision to join the risk management profession came out of a painful realisation – one where he felt he needed to learn how to manage risk better. Eight years into a career at Network Rail, Cadby had been managing big-ticket projects at the national rail operator for four of those.

He recalls working on an electrification project involving 2.5 kilometres of buried 25 kilovolt cable. Among other things, the project needed a sophisticated electric meter and it needed to be verified as safe by management before it could go live. Both arrived later than needed – failures that Cadby blames on himself.

"It was a bit of a slap in the face. I should have managed my risks better," Cadby says, "so I decided to go and do a job in risk."

Managing risk

He spent another six years at Network Rail in the risk and value division, managing risk on exactly the kinds of projects he had been running in his previous role. Then he moved to his current position at engineering and infrastructure contractor J Murphy & Sons, to see what life was like in the commercial sector.

The business is in a transitional phase. The company is three years into a ten-year strategy to increase turnover from £400 million to £2 billion and has ambitious plans to grow and develop.

"As part of that, they are expanding their control framework and the governance that is in place at the organisation," he says, "and they asked me to come into the group and lead the risk management elements."

Cadby believes that the culture of an organisation is critical if it is to manage risk successfully. "You can have all of the controls in place, but without the will to do what's needed, they will be ineffective," he says. He believes that the family-owned business – led by chief executive officer John Murphy, the founder's grandson – and their personal investment helps set a strong tone at the top, and provides an additional level of scrutiny over how things are managed.

People

One of the factors that contributed to Cadby's scooping IRM's award was his focus on people. "My approach is to provide a framework that enables people in the business to manage their own risks," he says. "I'm a big believer in helping people develop competencies to understand what a risk and an opportunity is."

That's why he sees risk management as providing assurance from a second line of defence position – although his team is currently helping managers establish controls that they will eventually own, as awareness of business risk matures.

> **I'm a big believer in helping people develop competencies to understand what a risk and an opportunity is**

"In my experience, the role and benefit of risk management is not simply identifying risk and sharing risk registers and dashboards. It's about connecting all the different bits of the business and bringing those together," he says. "My role as the head of risk management allows me to have the helicopter view."

For example, he explains, if one person is undertaking a supply chain mapping exercise to understand any potential impacts from Brexit, he can spread that message among other parts of the business facing the same issue. Similarly, as he improves the risk management and controls in one area of the business, he can help other managers adopt that model.

Cadby has also been sharing his knowledge and experience through IRM and was recently appointed chair of IRM's Infrastructure Special Interest Group. That initial drive to learn from an early career experience has paid real dividends for both him and the profession.

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The mathematics of forgetting

Researchers have found that collective memory decays according to mathematical laws, suggesting that creating and maintaining a cultural history could be a valuable asset

Organisations are generally poor at learning from their past mistakes. Often, there are few formal mechanisms to debrief management and the board about how risks materialise and to keep such disasters on the radar. In addition, today's focus on emerging risks and new technologies has made this sort of historical activity look too much like navel gazing.

The science of forgetting has been harnessing mathematics and big data analytics to find out how long it takes for events to drop out of mind. Researchers at the Massachusetts Institute of Technology (MIT), for instance, used the attention we pay to events online as a proxy for collective memory. The idea is that when a group of people stop looking up an event it has effectively dropped out of view.

Christian Candia and a group of colleagues at MIT's Media Lab say that such forgetting follows strict mathematical laws. They analysed a huge amount of data, from online views of the profiles of 1,700 sports stars and citations of 500,000 physics papers to the online play counts of 33,000 songs and 15,000 film trailers.

Cultural memory

Their paper "The universal decay of collective memory and attention" published in December 2018 in *Nature human behaviour* found that communities forget in two distinct phases – a so-called biexponential function. The first fall is rapid and dominated by direct word of mouth – water cooler conversation, talks down the pub. The second phase is longer and gentler and depends more on cultural memory, which is underpinned by the physical recording of events.

> As the memory of the event faded, so too did the concern about climate change risk

In a related article in the publication, Candia suggests policymakers should consider extending the period of communicative memory for high-impact events, such as when Hurricane Sandy struck New York in 2012. That is because the storm seemed to raise awareness of the risk and impact of climate change and underlined the importance of the need for taking mitigating action. But as the memory of the event faded, so too did the concern about climate change risk.

Without a formalised way of capturing and revisiting the lessons learnt from risk events within organisations, they will be forgotten quickly because word-of-mouth conversations do not stay in the collective mind for long enough. Not only that, it is boring to talk about the same thing all the time.

Evergreen artefacts

This presents a challenge to risk managers to both create engaging and evergreen artefacts of cultural memory at the same time as inventing new ways of keeping the board and management focused on the lessons that they need to remember if downside risks are to be avoided.

While the literature on collective memory has exploded since the 1960s, a common strand revolves around the use of narrative. For risk managers who do not want to overcomplicate the issue, this can be easily achieved by creating case studies of key events with key learning points attached. Instead of seeing these as belonging to stand-alone presentations, risk managers may want to insert the most important stories within different types of communication to keep those issues alive in the mind of the business.