

# RISK BUREAUCRACY VS RISK CULTURE

- KEY CHALLENGES AND SOLUTIONS FOR ERM

Workshop  
Kuwait 5<sup>th</sup> ERM conference

22-24 January 2019



As mentioned this morning, it's a changing world and ERM needs to respond





**DEVELOPMENT OF ERM:**

**LET'S LOOK AT THESE VILLIANS IN A  
LITTLE MORE DETAIL**

As mentioned this morning, we need to recognize and fight the villains in the corporate risk theater

### ISSUES



Captain Hook

### ONE SIZE FITS ALL



Darth Vader

# ISSUES

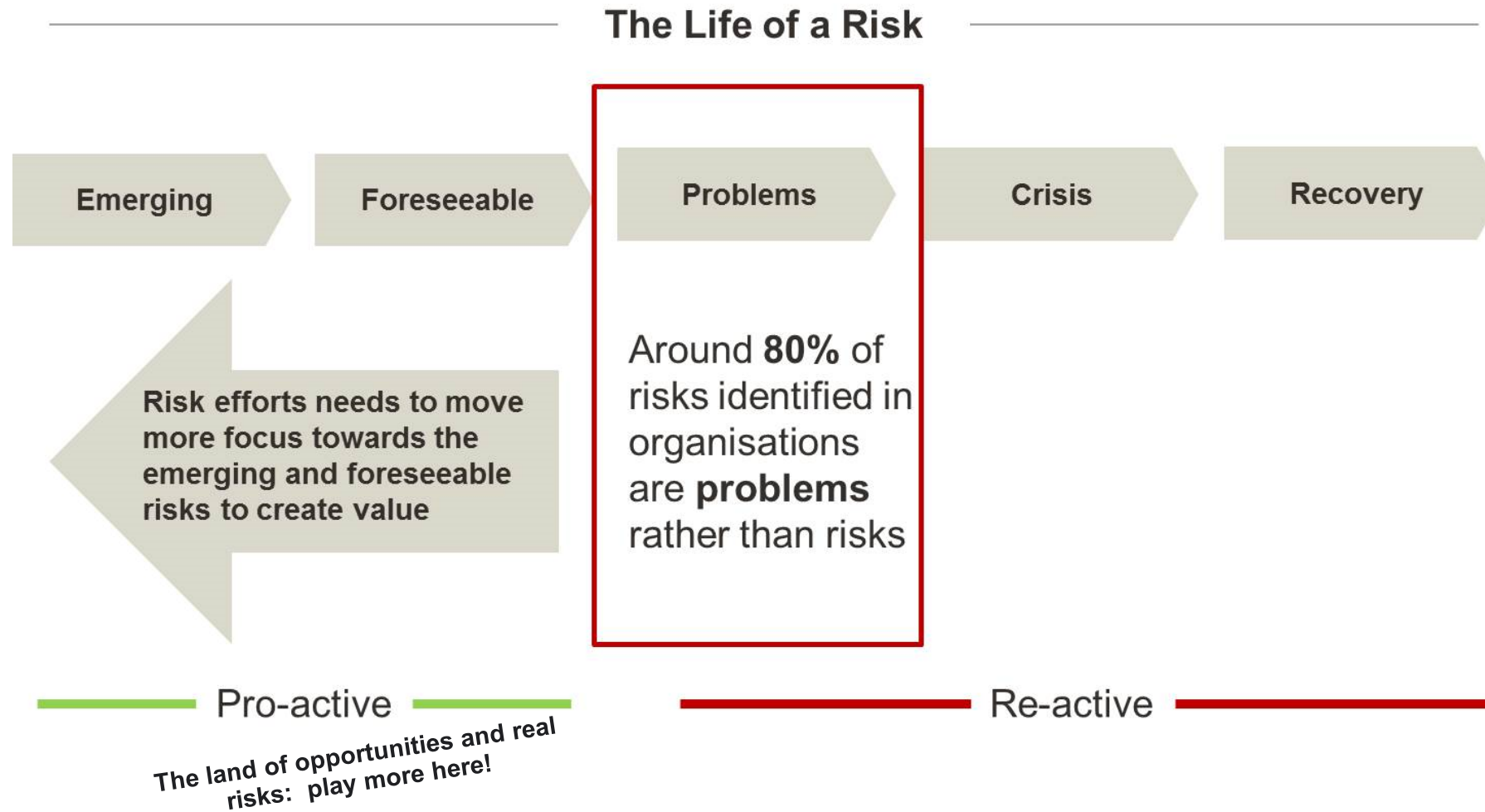


We find that risk registers usually only have about 20% real risks



... resulting in  
duplication of work  
and lack of focus on  
risk management's  
raison d'être

# And look more forward. The Risk Life Cycle





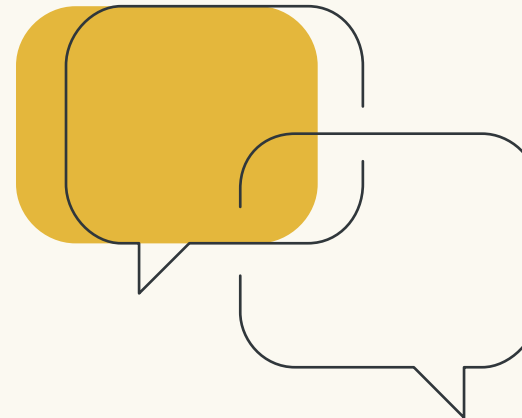
# ISSUE MANAGEMENT OFTEN TAKES THE SPOTLIGHT FROM RISK MANAGEMENT



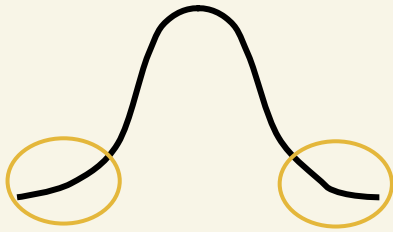
At the table, spend 5 minutes discussing:  
How many risks are there in this list?

### RISKS OR ISSUES?

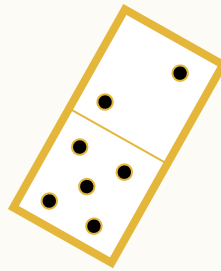
- 1 Delays in supply delivery will delay construction phase
- 2 Dependency on key resources
- 3 Lack of resources in project
- 4 Tight time schedule
- 5 Many stakeholders
- 6 New industry legislation expected in 2020
- 7 Lack of control in payment processes
- 8 No crisis management plans



# Three rules of thumb requirements of real risks



**What we don't expect**



**Between the cause and  
the impact**



**Visible occurrence**

# Articulating real risks helps the risk process in several ways



... at the table (5 minutes):

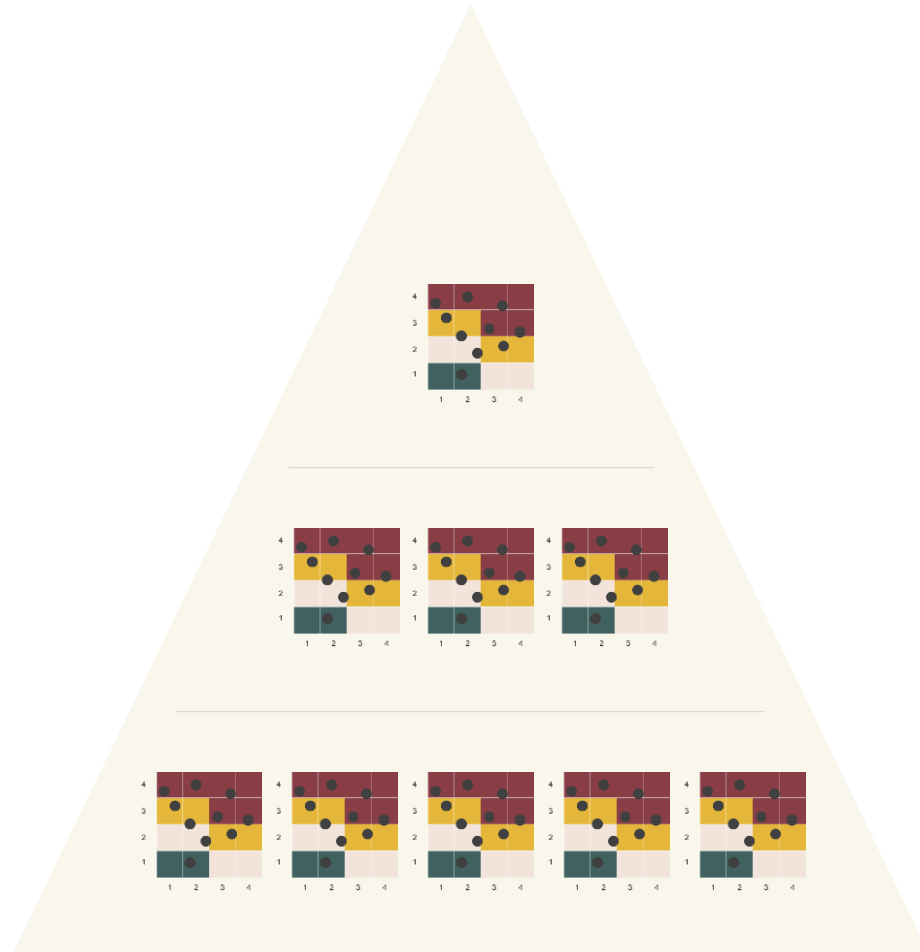
**“HOW CAN YOU ENSURE  
ERM IS EVEN MORE  
FOCUSED ON REAL RISKS?”**



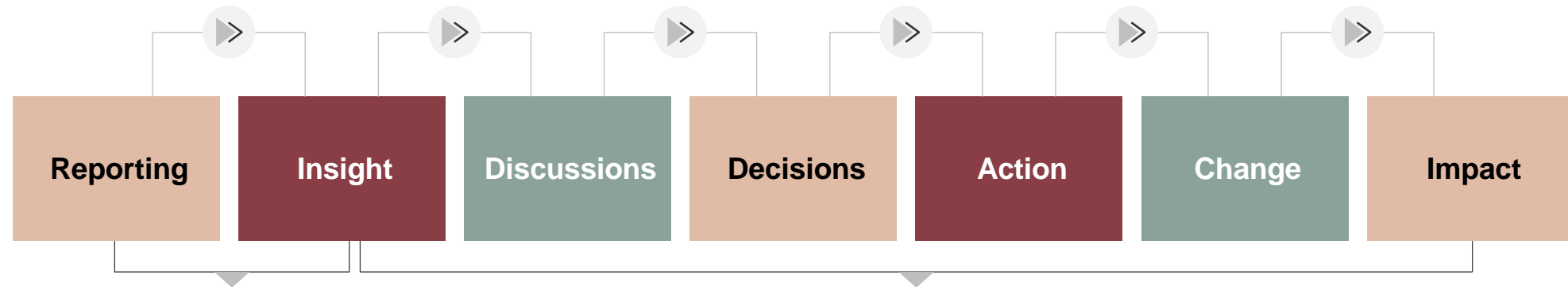
**ONE SIZE  
FITS ALL**



The heat map speaks risk language – not business language resulting in the risk function spending too much time on consolidation and reporting...



...which results in the primary “product” of ERM being REPORTS...



Common output in many organizations:  
**“The Reporting Trap”**

Often missed

**ERM need to be elevated and resourced  
so it doesn’t get stuck in the reporting trap**



ERM needs to re-align and tailor approaches to stakeholder needs by clustering it's work along three buckets



One company has differentiated approaches to strategic, current and persistent risks and covers both the ‘backbone’ and the ‘muscle’



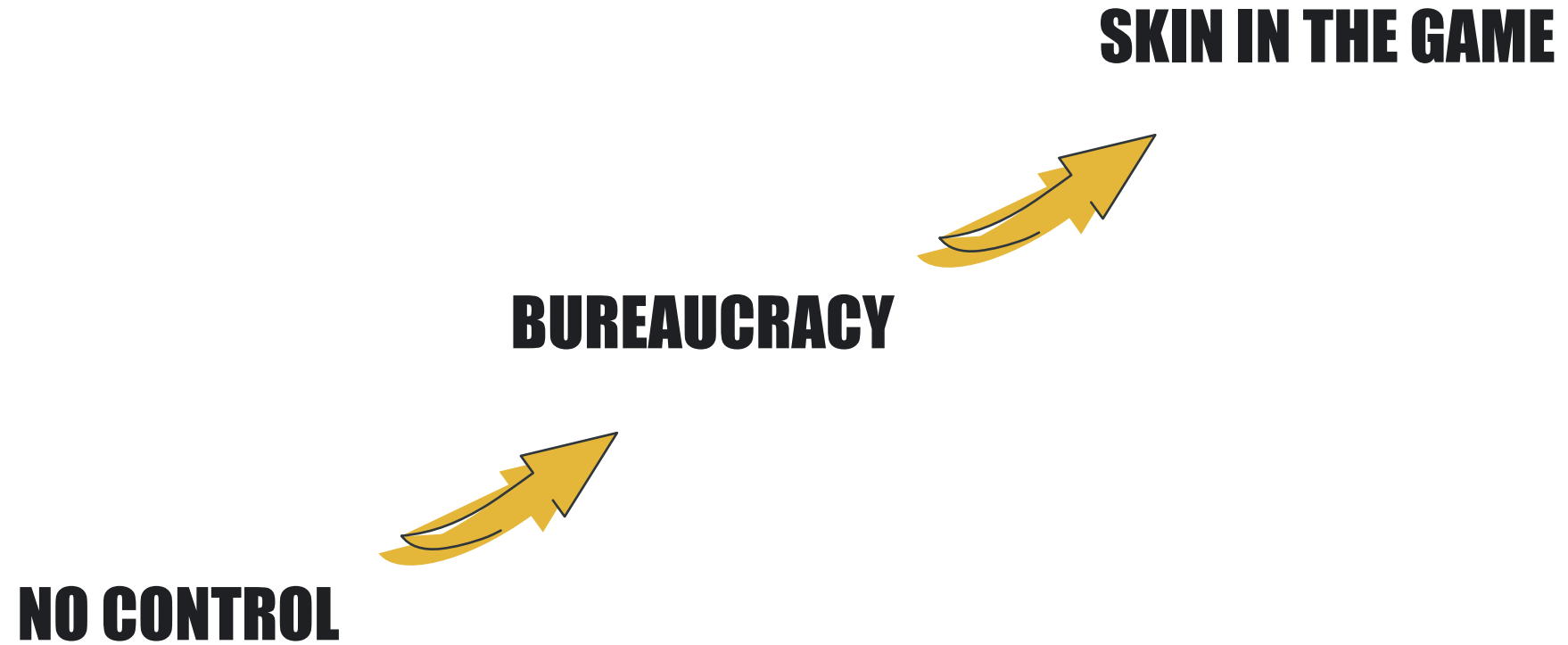
# **BUREAUCRACY**

## **CASE: CAPEX IN THE ENERGY SECTOR**

**WHICH SUPPLIER  
SHOULD WE SELECT TO  
BUILD THE OFFSHORE  
SUBSTATION?**



# APPROACHES



PEOPLE  
DOING  
REPORTS /  
PEOPLE  
READING  
REPORTS >  
10

A LOT OF  
POWER  
POINTS

A LOT OF  
MEETINGS

CHECK  
LISTS

EXTERNAL  
'VALIDATION'  
OF DESIRED  
OUTCOME

## **SIGNS OF A BUREAUCRATIC DECISION PROCESS**

DIFFERENT  
INCENTIVES IN  
PROCUREMENT  
AND  
CONSTRUCTION  
TEAMS

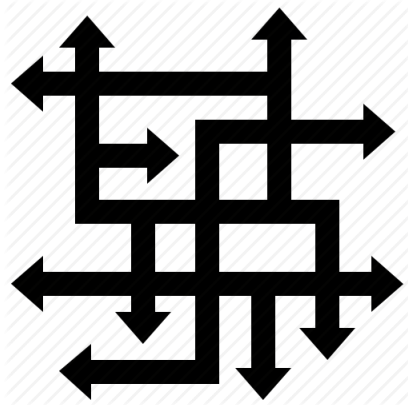
ORGANI-  
ZATIONAL  
HIERARCH  
Y

REVERSE  
ENGINEERIN  
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MODEL TO  
FIT DESIRED  
OUTCOME

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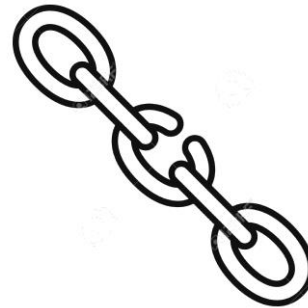
# BUREAUCRACY LEADS TO HIGH RISK EXPOSURE

OVER-COMPLEX  
SOLUTIONS



PPT nightmare by consultants ☺  
No impact understanding

SUB-OPTIMIZATION



No flow in process

LACK OF AGILITY



Leadership too far away

## EXAMPLE OF BUREAUCRATIC ERM PROCESS

- 2-6 months lead time from input to output
- Many revisions
- Low impact
  - No impact on decisions
  - No new knowledge



# EXAMPLES OF LACK OF SKIN-IN-THE-GAME

LEHMAN BROTHERS



... at the table (5 minutes):

**“How can you limit areas  
of bureaucratic  
processes in your ERM?”**



# LEVERS TO DE-RISK BUREAUCRACIES

AUTONOMY



ALIGNED SKIN-IN-THE-GAME



RECRUITMENT &  
BUSINESS CULTURE



ACCOUNTABILITY



# IMPROVING RISK CULTURE IN A SIMPLE WAY

PEOPLE

CHANGE

IMPACT

ENERGY

IMPORTANCE

AUTHENTICITY

**What are we talking about?**

Focus on key decision making processes – DEMAP's

# Risk culture is complicated and ‘all over the place’ – a simplification is needed!

Many attempts have been made by reputable organizations to define the content of a risk culture  
– **see table right**



Some definitions are very wide, some more narrow and *nobody* seems to agree.

Make it more simple – i.e. to focus on how people make **decisions** (conscious and unconsciously).

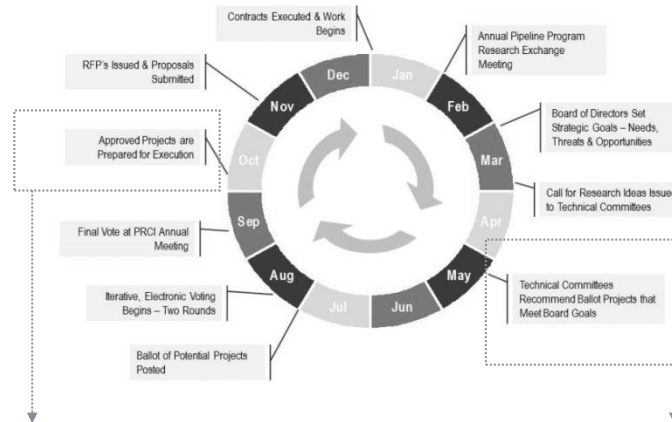
Focus on improving the behavior and thinking ‘in and around’ the most important **decision making processes (DEMAP)**.

Factor Categories	Deloitte	Ernst and Young	IRM <sup>1</sup>	KPMG	McKinsey	PWC	Towers Watson
Acknowledgement of risk (potential for over confidence, level of challenge)			✓		✓		
Communication (regular risk reporting and escalation of risk issues)			✓		✓	✓	✓
Compensation and performance management	✓	✓	✓			✓	
IT Systems							✓
Leadership (‘tone from the top’)		✓	✓	✓		✓	✓
Relationships (between employees)	✓						
Respect for risk (potential for gaming the system)					✓		
Responsiveness to risk (ability to react to risk issues)					✓		
Risk competencies (of employees)	✓		✓			✓	
Risk facilitation (status of risk function and ability to support business)			✓	✓			
Risk management processes and procedures						✓	✓
Risk ownership (clear accountabilities)			✓	✓		✓	
Structure of organisation and governance	✓	✓	✓				✓

# Start to focus on a selected number of key decisions

**Most companies go through an annual wheel where decisions are made – most as planned and some ad hoc.**

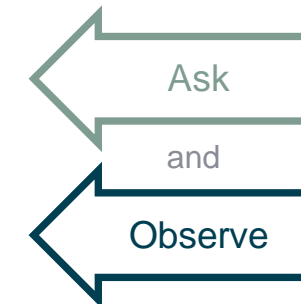
Sample annual key decisions



**To start - pick a few of the key decision processes, analyze how they work and especially detect how elements of risk and uncertainty are dealt with.**

Study the selected process from two angles:

- ▶ Risk **attitude** is the chosen position adopted by an individual or group towards risk, influenced by risk perception and pre-disposition
- ▶ Risk **behaviour** is the observable risk-related actions, including risk-based decision-making, risk processes, risk communications etc.



PEOPLE

CHANGE

IMPACT

ENERGY

IMPORTANCE

AUTHENTICITY

**It's important and complicated**

Scope is often too wide and the actual implementation fails



## Important

‘All’ reports regarding the **root cause** of the financial crisis (and other crisis for that matter) point towards problems in the (risk) culture of Financial Service Institutions (FSI) – e.g. **cultural issues around incentives and governance**.

This phenomenon is not only linked to FS companies.

Assessed conduct risk  
losses for EU banks  
in the EBA's  
2016 stress  
tests<sup>6</sup>

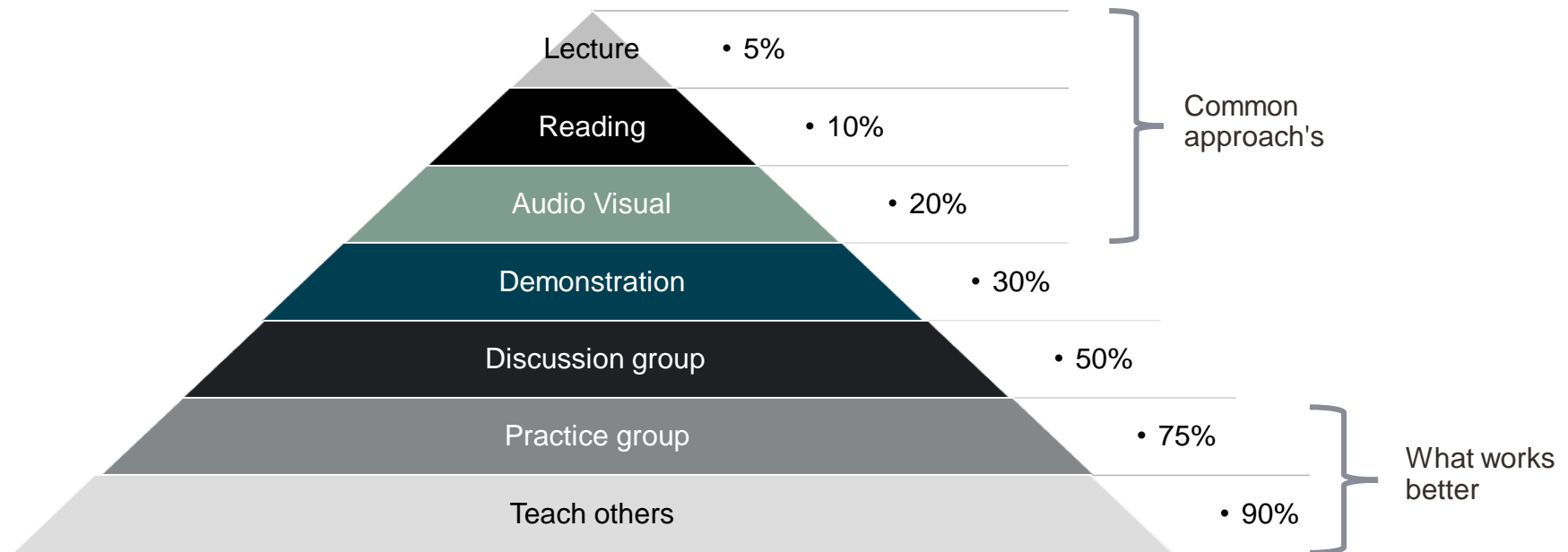


# Very few know how to solve the issue

## Complicated

In some contrast to the magnitude of the challenge - very few know what and how to do something about it!

Many attempt - with lots of well intended communication - have been made with very limited effect - as illustrated by the average retention levels (%) below:



# What does this mean for ERM? Develop team capabilities on multiple fronts

- Develop both soft and hard skills
- Get in to the business and work with them – improve their capabilities



## Risk Technical

- The typical risk wheel (ID, assess,...)
- Analysis, quantification & modelling
- Problem Solving & Design Thinking
- Insurance
- Risk vs. issues
- Risk techniques e.g. RCA,
- Etc

## Partnering

- Facilitation
- Interview skills
- Challenger & enabler
- Communication
- Stakeholder management
- Relationship management
- Etc

## Business

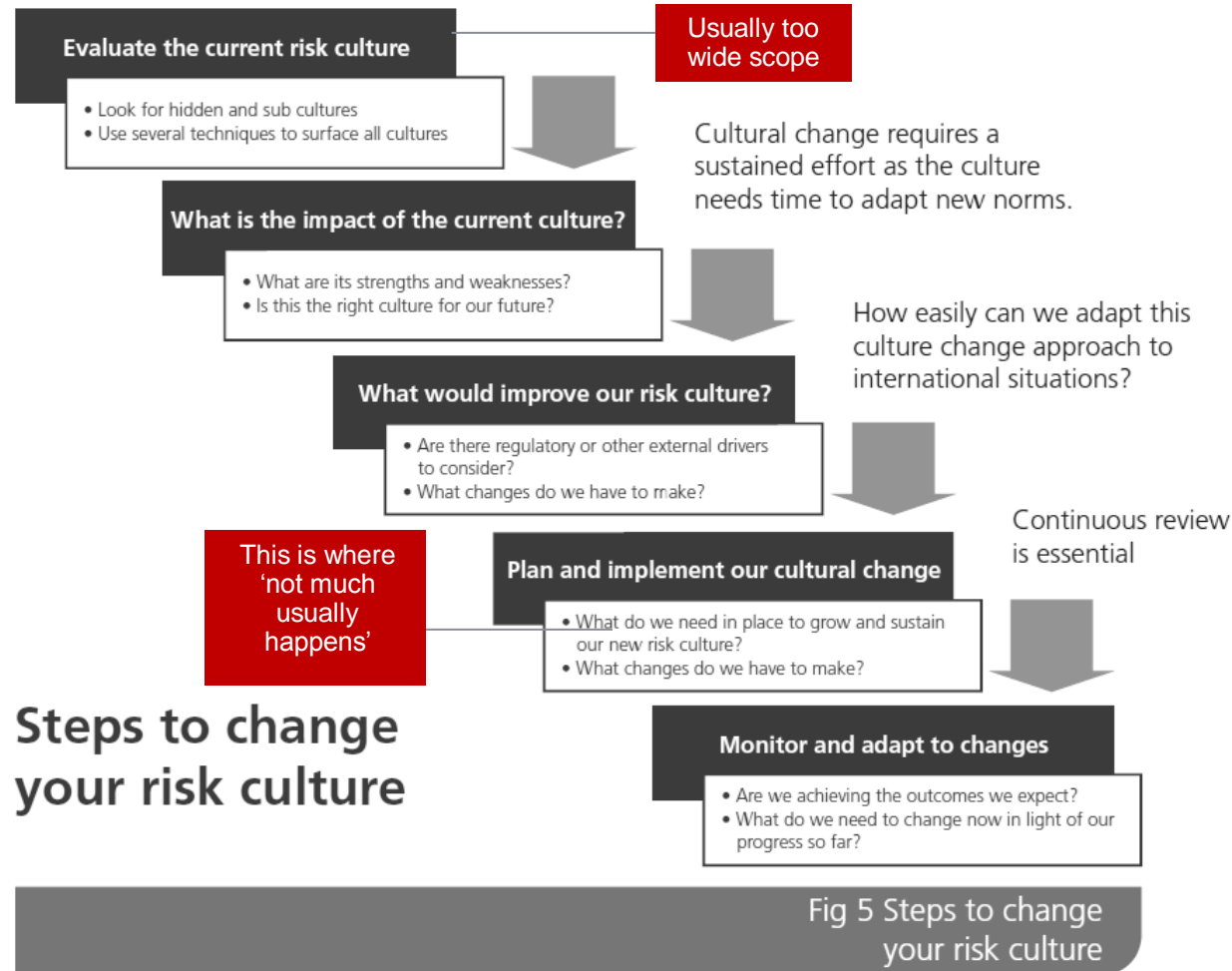
- Business acumen
- Market and industry insights
- Strategy
- Finance
- Performance management
- Etc

## Leadership

- Change management
- People skills
- Driving and influencing performance
- Prioritization and decision making
- Personal development
- Etc

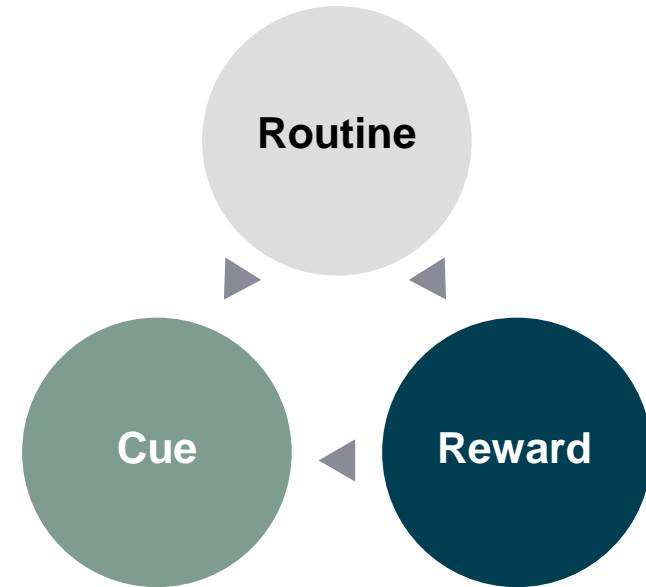
One example that makes it even harder is our incapacity to change existing habits – we have to learn new and stronger ones to change...

IRM has suggested a 5 step water fall approach (see below).  
The real life challenge lies in the Scope and Implementation!



Source: IRM

### The habit loop



Attack the habit loop directly to get new habits - replace an old routine that is associated with a particular cue and reward, with a new routine.

PEOPLE

CHANGE

IMPACT

ENERGY

IMPORTANCE

AUTHENTICITY

How can we get our arms around this  
challenge?

*A few (not all) tricks*

# How do we involve so many people in what to do?



Ideally it works best if we teach each other \* – and that is our recommendation - along with a couple of other options called **active change ingredients**



Remember to use your prioritized DEMAP's\* as a way to work one step at a time – mass communication has very limited effect – so keep your focus on a few decision processes at a time – and interact with the key stakeholders

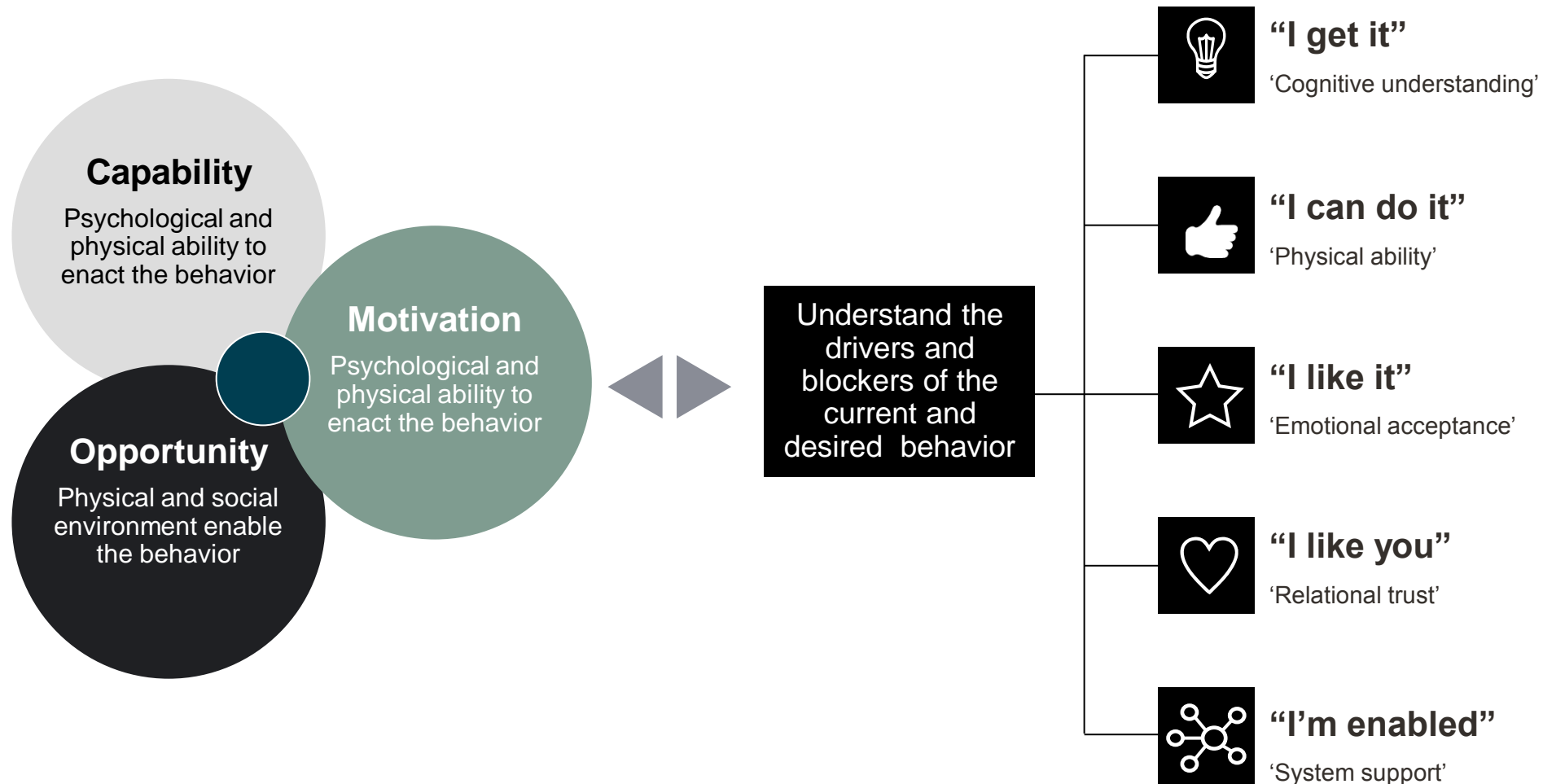


See how we can use 'active change ingredients' on the following pages...

\*) see page 4

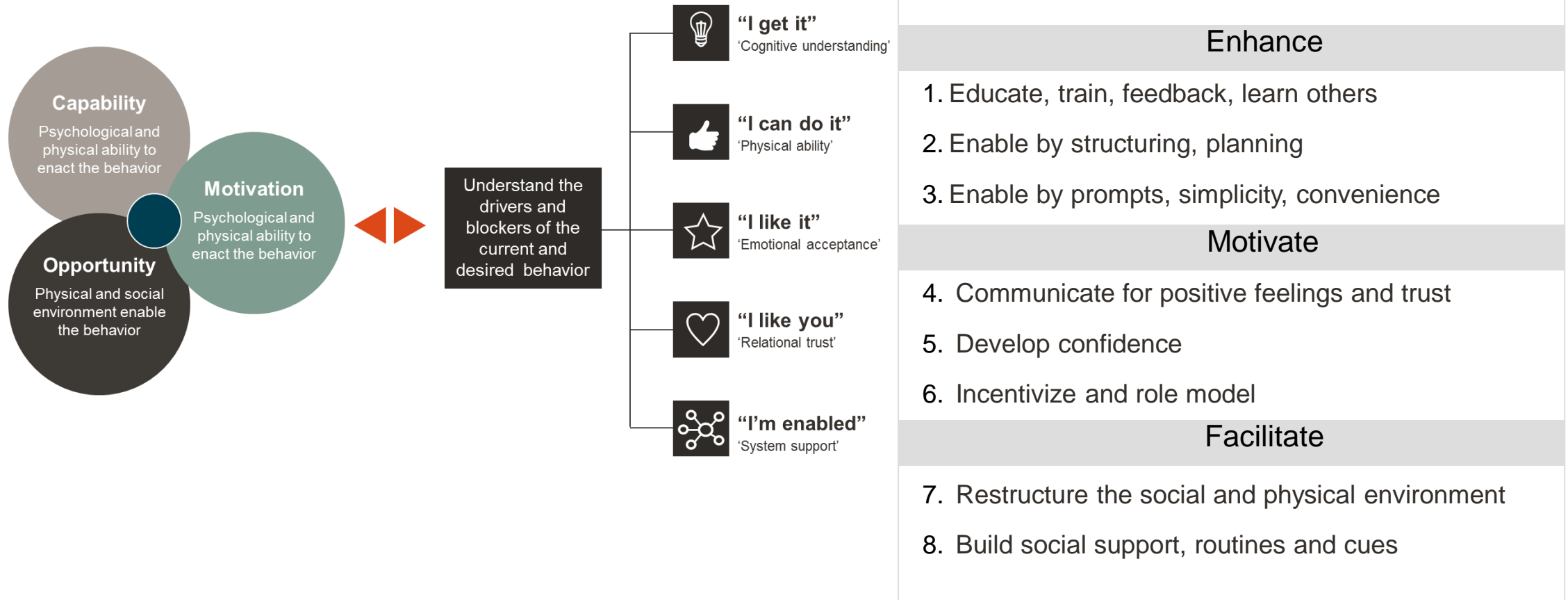
# First find the drivers and blockers of behavior...

Use the CMO<sup>1</sup> model to find the drivers and blockers of the current and desired behavior



1) CMO model: The Behavioral change wheel, Michie et al (2011), Implementation Science, own adoption

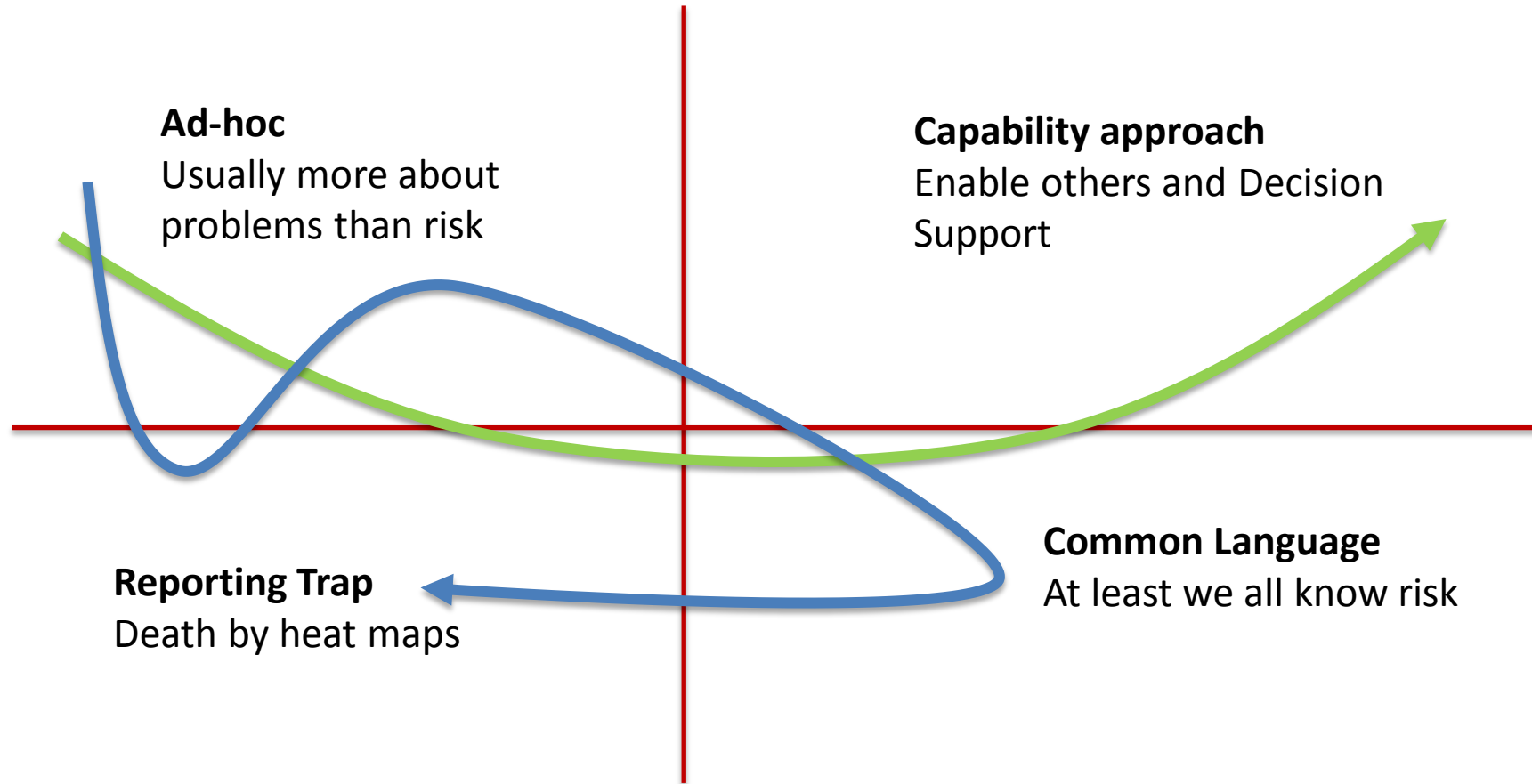
... and then apply the most effective 'active ingredients' for each individual or small groups





# SO WHERE TO START AND WHERE TO GO?

# ERM needs to improve our organizations capabilities rather than just develop reports.



The ICG risk capability journey

Go for the green arrow... 😊



**QUESTIONS?**

**Thank you**



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**CHANGE WITH IMPACT.**

# **EXAMPLE: FACILITATING EMERGING RISK DISCUSSIONS**

# UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS (SDG): RISK OR OPPORTUNITY?



# United Nations Sustainable Development Goals (SDGs)









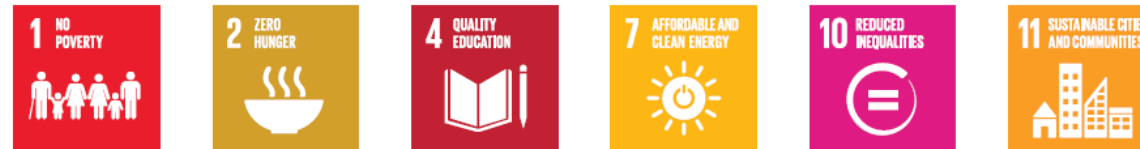
# How Maersk Group did it.....

- Aligned SDGs with their sustainability strategy from 2014.
- Mapped the SDGs to underlying business indicators.
- Understand and communicate which are most relevant to their business.
- Identify where they could have an impact and responsibility to act.

## Maersk and the SDGs



**STRONG POTENTIAL FOR POSITIVE IMPACT AT SCALE**



**POTENTIAL DIRECT / INDIRECT POSITIVE IMPACT**



**RESPONSIBILITY TO MITIGATE POTENTIAL NEGATIVE IMPACT**

## 7 AFFORDABLE AND CLEAN ENERGY



### Goal 7 Targets:

1. Ensure universal access to affordable, reliable and modern energy services
2. Increase the share of renewable energy in the global energy mix
3. Double the global rate of improvement in energy efficiency
4. Enhance international cooperation to facilitate access to clean energy research and technology, and promote investment in energy infrastructure and clean energy technology
5. Expand infrastructure and upgrade technology for supplying modern and sustainable energy services for all in developing countries



### Goal 12 Targets:

1. Implement the 10-year framework of programmes on sustainable consumption and production
2. Achieve the sustainable management and efficient use of natural resources
3. Halve per capita global food waste at the retail and consumer levels, and reduce food losses along production and supply chains
4. Achieve environmentally sound management of chemicals and all wastes throughout their life cycle
5. Substantially reduce waste generation
6. Encourage companies to adopt sustainable practices and to integrate sustainability information into their reporting cycle
7. Promote public procurement practices that are sustainable
8. Ensure that people have the relevant information and awareness for sustainable development and lifestyles in harmony with nature
9. Support developing countries to strengthen their capacity for more sustainable patterns of consumption and production
10. Develop and implement tools to monitor sustainable development impacts for sustainable tourism that creates jobs and promotes local culture and products
11. Rationalize inefficient fossil-fuel subsidies that encourage wasteful consumption to reflect their environmental impacts and in a manner that protects the poor and affected communities



## Example workshop at your company:

If a majority of the players in your industry (and some from outside coming in) decide to actively take action to pursue this SDG goal, your industry landscape and business environment will change drastically.

- What are the risks to our business model?
- What opportunity do we have to make sure we are ahead of the curve when the risk materializes?