



# RISK NZ

*The sector body in NZ bringing together people and organisations managing risk.*

## RISKPOST



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## A WORD FROM THE CHAIR

STEPHEN HUNT – Chair, RiskNZ



Welcome to the final Riskpost for 2020,

Since our last edition of Riskpost in June, our risk landscape has included continued geopolitical, trade and financial shocks, climate-related environmental threats, and persistent cyber-attacks on many of our national institutions. All of these events have occurred coincident to the increasing severity and impacts of the COVID-19 pandemic.

Throughout this year we have become accustomed to living with the risks, constraints and persistent threats that are the reality of our COVID-19 world. We have adjusted our lives to be

collectively responsible to one another and to play our individual part in guarding our society and loved ones. At home and abroad we see people and businesses adapting and adjusting to their own contexts, threats and consequences of the pandemic. As the global case numbers increase day by day and countries introduce lockdowns and new restrictions, it has become very clear that the need for resilience, adaptability, innovation, empathy, and the insightful management of emerging risk will continue throughout 2021.

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## A WORD FROM THE CHAIR CONTINUED...

A constant theme that stands out from many discussions with executives and senior leaders is the impact of individual human behaviour, assumptions, preferences and biases when making important decisions on the prediction and management of strategic risk. Each conversation has revealed a different personal perspective on how to balance the tension between the public health threat; the protection and safety of society; and the protection of the economy. The purposeful concentration, thinking, and strategic insight on controlling emergent threats of the changing world is now more crucial than ever.

The absence of a recognised normality and the increasing nature of global instability means the long-term prediction of strategic risks is increasingly difficult. We have learned that the uncertainty and volatility of markets and economies have created revolutions in the workplace and have triggered a new wave of technological productivity and leaps in digital innovation. Businesses that are resilient and innovative and which focus on the social, personal wellbeing and mental health needs of their people are standing out as more competitive and successful.

Here at RiskNZ we have been working hard to make sure we also adapt to the changing world and remain relevant to our members. We are increasingly using digital interfaces and social media and have been introducing events that cover strategic risk thinking, wellbeing and organisational resilience. Recognising that risk management is a ubiquitous skill across the workforce, we are also researching options for risk training and professional qualifications. Central to all these changes is our new Managing Director, David Turner. Since August, David's leadership and strategic thinking has helped us move to a new level and I firmly believe that 2021 is going to be a great year for RiskNZ.

To help us on our journey, we are immediately focused on the annual election of board members. We are now calling for nominations for six new members. Nomination forms and details on the election process are available on our website. Nominations close on 27 November and now is a great time to play a part in shaping our future.

STEPHEN HUNT

## FROM THE EDITOR AND MANAGING DIRECTOR

### DAVID TURNER

It has certainly been a year where we have needed to adapt quickly to an ever-changing risk landscape.

Talking with several RiskNZ members over the past months and hearing various experiences has reconfirmed how important the understanding and practice of risk management is, while also understanding the most effective ways of implementing risk initiatives while moving forward and keeping constant business and risk management momentum. I have heard some great stories of how people overcame difficulties throughout lockdown and the various COVID-19 levels, and how they frequently relied on good risk discussion, thinking, and practice to help get them through.

The key point I have seen emerge from these conversations is a new and keen interest in *'what risk management really is'* and when I asked what was meant by this? the answer voiced in unison from a number of people was: *'ensuring absolute risk management relevancy in what we do every day within our day jobs and private lives'*.

I have seen this revived and keen interest in risk propel the topic to the top of conversations including key speaking points at conferences, and renewed assessments of current risk management training and the value it offers. Also, people are looking at themselves that little bit harder and asking 'how can I manage risk better, what do I need to do, and how can I learn more? A project professional approached me some weeks ago and said 'I want to really understand risk and improve how I manage risk', this is the first time I have heard this and a tear almost came to my eye!

I am positive about the continued interest and development of how we think, discuss, and manage risk, and how we are finding new approaches and initiatives to make the right decisions while making risk management work for us to achieve better success.

#### Now to our articles:

When we decided on the theme for this second edition of Riskpost for 2020, we came up with 'the future of risk management: what is changing and what do we need to do going forward', and this theme caught the interest of a number of risk professionals who contributed their valuable articles. Our authors have shared their various thoughts, experiences, and future focused thinking, all of which I have found exceptionally important and has given me a fresh perspective on the future of risk and what we need to do to move forward in an ever changing risk environment.

I am excited to share these articles with you and a big thank you to our authors who have taken the time to contribute to this edition.

#### In this edition:

- **Kristin Hoskin** keeps you updated on standards development see page 5
- **Sally Pulley** is a previous RiskNZ board member and Riskpost editor who enabled many valuable and insightful editions of Riskpost over the years. Sally kicks off our articles with a book review which focuses on how organisations manage crisis and reputation.  
THE REPUTATION GAME: "THE ART OF CHANGING THE WAY PEOPLE SEE YOU" page 7

#### BACK ISSUES OF RISKPOST

The RiskNZ website [risknz.org.nz](http://risknz.org.nz) was updated in 2019, and the back issues of RiskPost are available in the members area of our website.

If you have forgotten your password for the members area then you can enter your email address to reset your password. If you do have problems logging on please email our admin officer at [adminofficer@risknz.org.nz](mailto:adminofficer@risknz.org.nz)

#### LONG REFERENCE ARTICLES

We can publish reference papers in the members area of the RiskNZ website.

#### EDITION 1 OF RISKPOST 2021

Work on Edition 1 of RiskPost 2021 will start December 2020, with the aim to publish end March 2021

If you would like to submit an article, or update a historic RiskPost article,

Continued on next page...

- **Chris Peace** is a long standing contributor and former board member. Chris provides an insightful book review which explains effective decision making, managing uncertainties, and knowing our organisations purpose.  
DECIDING: A GUIDE TO EVEN BETTER DECISION MAKING, page 8
- **Tiffany Frans** shares what she has learnt through her experiences in risk management and what she has found to be most important:  
KEEPING THE RM APPROACH RELEVANT page 9
- **Rachael Pettigrew** shares her perspective on traditional and future risk practices while ensuring risk management relevancy.  
THE FUTURE OF RISK MANAGEMENT, Page 11
- **Sally Pulley** provides a focus on the ongoing impact of Covid-19 and asks if we as risk professionals are learning from our recent experiences and how we will manage risk going forward.  
THE TRANSFORMATION QUESTION, page 15
- **Suralda Timmerman** provides us with an insight into two of the most important functions within an organisation: risk and audit.  
ENTERPRISE RISK MANAGEMENT AND INTERNAL AUDIT – WORKING TOGETHER TO LIFT MATURITY WITHIN ORGANISATIONS, page 17
- **Nigel Toms** is former RiskNZ Chair and shares his many years of risk and resilience experience.  
INTEGRATING RISK AND RESILIENCE FOR FUTURE SUCCESS, page 20
- **Sue Trezise** is a RiskNZ member who has provided valuable risk insights and experiences. Sue now shares some of her latest work:  
RESILIENCE IN INFRASTRUCTURE, page 24
- **Silvia Zanini** a RiskNZ member who provides us with thought pieces and case studies now examines the importance of organisational culture:  
WHAT ROLE DOES 'ORGANISATIONAL CULTURE' PLAY ON REDUCING THE RISKS OF CRISIS OR DISASTERS? Page 26
- **Lynda McCalman** a serving RiskNZ Board member provides us with a poem with reflections of the first COVID-19 lockdown:  
COVID-19 - UNFINISHED BUSINESS' page 29

There has been a great deal of effort from the authors who share their knowledge and provide a varied perspective on the future of risk management so we hope you enjoy reading this edition of Riskpost.

Finally from me: the past months have also demonstrated to RiskNZ what members need and want, and this has adjusted the direction of RiskNZ towards a strong focus on events, tools, templates, networking, and conferences which stimulate risk thinking and add more value for members. We are busy behind the scenes planning and organising these events as well as valuable additions to the RiskNZ website.

I hope you can all be involved throughout 2021, and please keep letting us know what is important to you while taking full advantage of your membership. Please take time to read the weekly/bi weekly mailers, and contact us anytime with any questions or to submit ideas and articles which we can distribute to members on your behalf.

I am excited to share these articles with you and a big thank you to our authors who have taken the time to contribute to this edition, a big thank you to Alice Arndell who worked with me to bring this edition together, and a special thank you to Emily Thorn our admin officer who has worked with me over the past months and played a significant role in the continued success of RiskNZ.

Have a great few weeks before Christmas and we look forward to working with you next year.  
Thank you!

DAVID TURNER

# RISKNZ STANDARDS UPDATE

KRISTIN HOSKIN - RiskNZ Management Board Member

Hot off the Press! Although I've said numerous times that there are some new publications imminent, now they are finally here (well almost).

## **AS/NZS5050:2020 Managing Disruption Related Risk**

Since March this document has had a lot of effort put into it. The new 5050 is very different to the previous one. While the previous version had a business continuity focus this version has a resilience focus. Written to work well with risk management approaches it is intended to help decision makers identify indicators of disruptive events and work to position their organisations to take best advantage of changes. Its objective is to enhance resilience potential and sustainability of organisations. Print versions have come back from the printers and it is available from the Standards website now.

## **SA HB 436.1:2020 Risk management guidelines – Companion to AS ISO 31000:2018 Part 1: Boards and executives**

The final pre-publication review of this document took place in late August and as with AS/NZ S5050:2020 its is available now. When you see this handbook you will see RiskNZ listed as "Additional Interests" on the inside front cover. Although I am an OB-007 member representing RiskNZ on the committee because this publication is not a joint publication only the Australian based organisations were listed as committee members. Both Australian and New Zealand committee members worked on the content so please treat it as a handbook for both New Zealand and Australian audiences.

## **ISO 31000 Guidance Handbook**

Working Group 6 met on the 19th of October and N122 will soon be entering the formal publication process bringing it one step closer to becoming a resource we can all use to help apply 31000. While AS HB 436.1 is intended to help boards and executives understand how they can apply and use 31000 the ISO 31000 Guidance Handbook is to be a tool for all users of the standard and is written for an international audience. As with most ISO standards the publication process isn't particularly fast and there are a number of milestones to be met before a publication date will be known. However the committee has put a lot of work into editorial review so we are hopeful that it will be well received in its pre-publication circulation.

## **Annex SL**

Appendix 3 of Annex SL is currently open for comments. The NZ Mirror committee is submitting comments that we hope will help improve the annex. This annex is a guidance document to help align management systems standards through a common understanding of terms. There has to date been issue with how the document expressed risk and risk related terms. This is our opportunity to help improve that so it better reflects the intent and use promoted through 31000 and other risk standards as well as the way the risk management community at large wants risk terms to be used and understood.

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## ISO 31030 Managing Travel Risk

ISO 31030 Managing Travel Risk was submitted for DIS ballot initiation in August. This is normally a 12-week process so I will be able to provide an update in late November or early December on how that has gone.

## A note on contacting ISO Committees and the CAG

Working Group 8 ISO 31073 recently voted to confirm a new convenor and the TC262 CAG voting closes early in November. There are also a couple of other changes with convenors that have recently or are soon due to change. So, if you have direct correspondence with any of the ISO TC262 leaders do check that you still have the current person for the role you wish to contact. If in doubt please do drop me an email or call me and I will find the right person for you.

## Other News

In other news; our influence is growing. We now have several members on different standards committees. We will be producing a profile of these members on our LinkedIn feed in coming weeks. If you are on a standards committee and want to be included, please contact David with your name, nominating organisation and the standards committee(s) you are on and roles you hold. We hope this will make it easier for RiskNZ members to share their thoughts on, and stay abreast of standards development.

## BOOK REVIEW by Sally Pulley – Extrinsic Services Ltd

“The Reputation Game: The art of changing how people see you”

by David Waller and Rupert Young

Like many other members of RiskNZ, my plans to spend a few months of 2020 overseas have been put on indefinite hold because of Covid-19. Pondering about what best to do during the NZ L4 lockdown (apart from pounding the streets to keep up the fitness levels) I decided to spend some time in catching up on reading, whilst monitoring news and information channels as Covid related disruption impacted the globe.

“The Reputation Game: The Art of Changing How People See You”, was published in 2017. So why should a 2017 book be relevant now, in the Age of Covid? One answer is that Covid-19 presents nations, organisations and people with crisis situations. In a crisis decisions need to be taken at speed, and actions become formulated as stories and travel through networks. Reputations can become damaged when stories are not well managed and coordinated across multiple storytellers and time.

Real-life examples are used to discuss how reputations were affected by actions taken during, and post, various historic crises - wars, the financial crisis of 2007-2008, and various organisational crises such as BP's handling of the Deepwater Horizon disaster in the Gulf of Mexico.

I found the reading both fascinating and entertaining. Peer-reviewed research and interviews (and some humour) are used to discuss how reputations are made, lost, and sometimes repaired.

The book discusses the three dice in the reputations game: Behaviours, Networks, and Narratives. Part I looks at Reputation Strategies, and Part II looks at Reputation in Practice.

Part I provides an introduction to the rules of the

game (Behaviours, Networks, and Narratives) using examples that range from Viking berserkers to the character of bankers, and how the internet dissolves space and collapses time.

News items and social media provide messages at points in time. Each message contributes to building the mosaic of interactions that influences how reputations are perceived across time.

Fragmented messaging can serve to fan the flames of negative press coverage. The book uses the Deepwater Horizon disaster as one example of this - the Chairman hired his own PR company to protect his reputation, whilst the CEO employed separate spin doctors.

Part II, Reputation in Practice, provides a variety of historic and ongoing examples of managing crisis that range from Deepwater Horizon; to the VW emissions scandal; the communication skills of Pope Francis; the reputational legacies of Blair versus Clinton; the twelve Profumo years; and more. Part II concludes with legacies, the role of the storyteller, and the power of epithet - *‘one of the peculiarities of the legacy game is that it carries on when you yourself are not around to play’*.

In conclusion - ultimately we are all playing the reputation game. Before you start to play, you have to ask the right questions about the kind of reputation you want, for what, and with whom.

Regardless of your perspective - national, organisational or personal, this book provides insights for understanding and managing reputational risks across time.

**Publisher: Oneworld Publications**

**ISBN: 978-1-78607-071-5**

**eISBN: 978-1-78607-072-2**

## SALLY PULLEY – Extrinsic Services Ltd

Sally became a Board member of RiskNZ in 2015 and served three terms, standing down in 2020. Her interest in risk management and situational awareness was triggered at University, with her first trip into the depths of a working underground coal mine - there is nothing like stepping into the lift cage of a deep mine to build awareness of risk and engineering standards.

Sally's career can be described as helping organisations to create certainty of outcome by identifying and managing uncertainties. She worked on a project and a consultancy basis for over 30 years and, has seen both good and not-so-good approaches to the management of reputation risk.



## BOOK REVIEW by Chris Peace

### "Deciding: A guide to even better decision-making"

by Roger Estall and Grant Purdy

Einstein is credited with saying "If you can't explain it simply, you don't understand it well enough". In this slim, self-published paperback book Roger and Grant succeed in explaining a great deal very simply. They understand the importance of the "purpose" of an organisation, and of uncertainty and assumptions in effective decision making.

Roger and Grant are friends and I have heard them talking about their beliefs for some years but, as expressed in *Deciding*, their ideas have extra force and conviction. In eight brief chapters plus five appendices they show how better decisions can be made using a few key principles and processes.

They strongly argue for the use of plain English and avoidance of jargon. Grant and Roger are especially averse to the words "risk" and "risk management" and related terms with a 22-page appendix on this subject, preferring to focus on the purpose of an organisation and uncertainty about achieving that purpose.

The chapter on the purpose of an organisation is key: if we don't know what an organisation is for how can we manage uncertainties about achieving the goals? In my work as a consultant for 17 years and, more recently, academic researcher, a frequent problem was that managers did not know what the organisation was for. Whether called purposes, objectives, goals, targets or a range of other terms they boil down to what the organisation was set up to do. They are important from the governance level to the frontline of an organisation, requiring good decision making.

*Deciding* highlights the importance of understanding and monitoring the context in which the decision is made and any assumptions in a decision. Both should be explored and written down to help ensure they can be monitored for change.

Consultants, software package vendors, and others may dislike the book, dismissing it as simplistic. But after reading this book I will be revising the content of the two papers I teach at Victoria University of Wellington to be more focused on uncertainty and the purpose of organisations. Indeed, the book will be a set text in 2021.

*I was unable to order the book via Amazon in New Zealand but Unity Books in Wellington was able to access it from the UK for \$34.*

**Publisher: Independently published**

**ISBN 13: 979-8-63241-747-1**

## CHRIS PEACE

After graduation in 1974 Chris worked in a regulatory role in the UK before moving to New Zealand in 1980. Here he changed careers and worked in risk management before returning to the UK in 1990 where he continued to work in risk management and studied for an MSc in risk management and safety technology.

Returning to New Zealand in 1995, Chris continued to work in risk management before joining the Natural Gas Corporation in 2000 as the corporate Risk Manager. In 2003 he left NGC and established Risk Management Ltd as an evidence-based risk management consultancy. From 2005-2012 Chris taught risk management at Massey University and then moved to Victoria University to research 'The effectiveness of risk assessments'; for his PhD, graduating in 2019.

In April 2020 Chris joined the School of Health as Lecturer in Occupational Health and Safety.

# KEEPING THE RM APPROACH RELEVANT

TIFFANY FRANS

## What makes a RM approach useful – three key learnings.

A few weeks ago, a colleague asked me 'what makes the Risk Management (RM) process and practices compulsory in our organisation?'. I was not being questioned about the importance of RM, or the framework endorsed by our leadership team or even its validity in our organisation – rather, it was a question of approach and implementation. After getting over my slightly bruised feelings, I realised that this was a legitimate question and upon reflection, three key learnings around 'what makes a RM approach useful' stood out to me.

### 1. Keep it simple

These days information is easier to access, and it seems our customers can be influenced or exposed to an event before the proverbial ink in the risk register has dried. I found that, for our tools and practices to be effective, they need to be simpler and quicker to understand and use in an ever-changing environment. I realised that I had been confusing the simplicity of why RM is important with big, and sometimes daunting, frameworks and tools. What this has meant for me and my team is that we are always looking for ways to simplify and get back to basic RM principles so that the resulting RM practices can meet people and teams where they are at in their RM journey and can be used on-the-go, wherever we go.

### 2. Focus on behaviour

There is an increasing expectation on our organisation from customers and other stakeholders to work smarter and improve the services we provide. Each day, our teams are making decisions and delivering services and projects that we can be proud of. So how does this compare to our lower organisational RM maturity? Our organisation has come a long way in RM practices but I realised that, the theory of RM, standards and frameworks is exactly that, theory. It is up to our organisation to determine how RM will drive value. There are many RM tools, methods and Enterprise Resource Planning (ERP) systems in the market which helps us collect, measure and make sense of organisational risk maturity and information. It is important, for me, to focus on the outcome of RM before focussing on RM tools. One of the challenges for our RM function is effectively supporting and building linkages between risk information and risk maturity (the 'understanding' or 'knowledge' of RM activities) with the day to day behaviours of our people in managing risks (the 'thinking and doing' of RM activities).

### He tangata, he tangata, he tangata: Prioritise people over frameworks

It has become apparent over time that there is a positive trend between the level of trust, perception and connection with the RM function; and the level of buy-in or effective imbedding of RM principles and practices by teams.

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It is important for me (as a risk professional) to lean into the vision and goals of our organisation and to 'seek first to understand, then to be understood' (Stephen Covey) before recommending a course of action. For me, this has meant that I spend more time away from my desk to meet with people, I have placed higher focus on imbedding the RM principles (rather than tools and frameworks) and have adopted a more 'agile' approach in our RM practices so that it can be tailored to the working style and needs of the team.

Given the diversity in operations and the increased demand to serve our teams effectively and efficiently, I have also become more reliant on a network of risk professionals outside of my organisation for testing new ideas, sharing and brainstorming challenges in RM practices and for general coaching support.

Risk Management approaches will continue to change and adapt to the needs of our organisation – as they should. As a risk professional it is my goal to facilitate, build confidence in and support the imbedding of the core RM principles and make this as accessible as possible at all levels of our organisation.

## TIFFANY FRANS

Tiffany has been a full time risk practitioner for approximately three years and has experience in managing enterprise, strategic and operational risk management frameworks. Previously, Tiffany was an external auditor at a big four professional services firm and is a member of Chartered Accountants Australia and New Zealand.

In 2019, Tiffany was a part of the team who received the Risk NZ Governance and Leadership Risk Management and Practices award.

# THE FUTURE OF RISK MANAGEMENT

RACHAEL PETTIGREW – Associate Director at KPMG

**What it looks like, what's changing, and what we need to do.**

When considering the future of risk management, taking stock of where we are now will allow us to identify what action we need to take. As Albert Einstein so clearly stated, "The world as we have created it is a process of our thinking. It cannot be changed without changing our thinking."

There are three key themes to consider when it comes to what the future of risk management looks like - risk data and information and how risk reporting can be elevated, how aligning risk with project methodology can be achieved and the capabilities of risk professionals required in the future.

While exploring the current environment for risk management, we can't avoid the fact that traditional practices are being eclipsed by change taking place in other key management functions. To remain relevant as risk professionals, we need to change our way of thinking and look internally at our own risks – or we may no longer enjoy our seat at the decision table.

## 1. Bringing value to decision making

The future for risk data and information is already here. Organisations are readily adjusting to an environment that is dynamic, integrated and unpredictable. The need for analysing, monitoring and reporting on risks needs to keep pace with this change to maintain a valuable contribution to decision making.

Risk reporting needs to be objective and presented in real-time, limiting the influences brought about with usual human biases and group think. It also needs to focus on the upside of risks as well as the downside in order to guide decision makers throughout an organisation.

### **Risk heatmaps**

The traditional risk approach is a narrow two-dimensional view created by likelihood and consequence variables. This approach is commonly presented on a risk heatmap with risks represented in green, amber and red. However, there are many drawbacks to this visual representation that may not be considered by decision makers:

"Green" risks by virtue of their individual low rating for likelihood and consequence do not reveal any systemic significance. For example, green risks can trigger other risks, and therefore exceed its 'green' consequence rating. This amplification effect is often not portrayed in traditional risk methodologies.

Risk clusters or 'centres of gravity' contain a group of risks of varying and somewhat random heat colours. The interconnections between these individual risks could be numerous and stronger than any other group of risks on the heatmap. If these links are unable to be detected, risk owners will not be aware that they need to manage and monitor the risks together rather than as discrete items.

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Similarly, risk clusters will have a compounded level of likelihood and consequence. These levels may even exceed the likelihood and consequence of the most significant and single "red" risk on the heatmap. This could result in risk clusters unknowingly falling outside of an organisation's risk appetite even though individual risk ratings comply.

Traditional risk management techniques of assessing and managing risks in isolation creates a perception that these risks also manifest in comparative isolation. This thinking may lead risk owners to underestimate the severity of potential contagion and the systemic importance of the risk.

Decision makers require risk insights and a view to the future. Simply regurgitating the same risk data and information that has sufficed in the past will not lead to optimal decision making, especially in today's environment where the stakes are even higher due to the fast pace of change. Risks need to be presented in a way that reflects how the risks interact in terms of network effects, with the expected contagion of consequences lit up across an organisation. Without understanding the systemic risk view the picture is incomplete and organisations will continue to be surprised by downside risk events.

### **Structural breaks and future modelling**

To be of value to a decision maker, modern risk reporting needs to make allowances for the existence of structural breaks. These are events or occurrences whose future trends will not reflect those of the past. For example, Covid-19 has created a structural break in our environment by forcing new ways of working to limit physical contact. Current risks influenced by this event will not be reflected in any of the past risk data and information. There needs to be explicit allowances for the existence of these structural breaks within risk data rather than continuing the traditional approach of simply refreshing risks periodically.

Risk reporting also needs to overcome the issue of insufficient data being used to determine what the future outcomes may look like and understand that past risk data is a poor predictor of the future. Research shows that the trigger events for 17 of the most significant economic crises since 1971 have been macro socio-political and/or macro-economic events not observed before in history. Therefore, how do we account for structural breaks in the system and not rely on historical data for future risk modelling?

The answer lies in a fundamental change in the way we report. It is critical to visually illustrate risk connectivity, contagion and clusters to allow for optimal decision making. In order to achieve this, we can leverage techniques such as network theory and other sophisticated mathematics and analytics. Using these techniques is now accessible without the need for extensive academic training and study. Risk professionals do not necessarily need to understand how the risk data is analysed using these methods, but they will need to understand how to interpret the resultant outputs and speak with confidence to the relevant concepts.

We no longer have the luxury of time on our side. We need to objectively and visually illustrate risk connectivity, contagion and clusters to allow for optimal decision making, and allow decision makers to look beyond the data and focus on risk insights.

## **2. Aligning risk and project methodology**

Organisations are absorbing change and transformation at a rapid pace. To remain relevant, organisations are adopting Agile project management in favour of the traditional 'waterfall' project model.

In the past, there was a reasonably predictable relationship between waterfall project methodology and risk. Waterfall followed a traditional approach of planning and designing followed by a large release on users. This command-and-control-driven work environment meant potential for risk was relatively minor in the early stages of the project lifecycle, so risk was not generally engaged. It wasn't until the project was nearing a major

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release that an anticipated spike in risk and consequences identification would be addressed, as the project needed to move through specific approval gates. This late identification of risks could result in large overruns and remediation pressures, which in turn could influence the level of robustness in risk identification in order to keep to delivery targets.

### **Where risk and Agile working collide**

To explore where risk and Agile collide, we need to understand the perceived gaps in their objectives. Agile focuses on bringing speed, momentum and action to a project, and does not follow a linear mindset. Traditional risk management focuses on working deliberately through a defined process and implementing controls in order to achieve the desired and known outcome. Here lies the perception that managing risk will immediately put the brakes on Agile methodology and dilute any advantages of adopting Agile principles. There is no slowing the Agile wave, therefore we need to find a balance where risk shifts its mindset and transforms in order to remain relevant.

There is a significant difference in the risk profile through Agile compared to waterfall project delivery. In Agile, the potential for risk impact is greater at the beginning of the project – not all at once at the end as in the waterfall approach. As an Agile project develops over time, the potential for risk impact becomes minimised as risks are continually identified and mitigated. Risk management is more informed, systematic and reliable due to early and continuous engagement.

In order to find the right balance between robust risk management and preserving the value of Agile methodology, it's important to define the risk operating model at the outset. This model needs to be co-developed so that it supports the principles of Agile and fits in with an organisation's overall risk strategy and appetite. To achieve this, attention needs to be focused on two key areas:

*Governance and interaction:* When will risk management be involved in order to maintain efficiency while addressing risk? What meetings to attend and what not to attend? When to be involved and when not? Risk professionals need to be engaged from the very beginning of the project and continuously be integrated throughout – not peering in periodically from afar.

*Authorising environment:* What decision rights will be allocated to which project participants? What is the structure and powers of project governance? How will the correct level of challenge be presented and addressed? Who is responsible for the aggregated view and acceptance of risk? Friction may appear if an organisation is seeking to impose the traditional hierarchical reporting lines of such models as the Three Lines of Defence.

Whatever form of risk model is agreed, this needs to be integrated iteratively and not just at check-in points. On the same account, project managers should expect risk professionals to have a reasonable level of knowledge of Agile methodology and principles in order to remain effective.

### **3. Developing future risk capability**

The above themes all lead to the risk professional of the future having evolved their own personal development, capabilities and skill sets. No longer is a sound understanding of best practice standards, experience implementing traditional risk frameworks and administering risk registers enough for a risk professional to add value to an organisation. The same is true for the key decision makers who sit among the executive and at the board table. In order to drive optimal decision making, these leaders need to challenge the status quo and seek better risk insights and reporting in order to drive a more informed discussion. Without knowing and experiencing what is possible – both parties may not realise a change is required.

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Stagnation and a reluctance to move away from 'what we know' can be seen in the current job descriptions posted for risk professionals. Experience in implementing standards such as ISO 31000, using standard risk assessment matrices, completing quarterly risk reporting for senior leadership teams, enabling line 2 activities across an organisation and facilitating risk workshops for front-line people are all commonly sought attributes.

Those recruiting and creating job descriptions for risk roles are guided by the perceived needs of executives and members of governance groups such as the Risk and Audit Committee. Those putting their names forward for the roles emphasise how they fit the job description in order to be a successful candidate. It seems a chicken and egg scenario with neither party seeing a need to change.

To move to a modern view of risk management, risk professionals need to turn up with more. We need to bring experience in risk reporting that goes further than traditional risk heat maps and linear risk registers. We need to upskill and cross-skill with knowledge of project methodologies like Agile, change management driving principles and transformation journeys. We need to illustrate to executive leaders and the board what risk insights look like, and experiment with new ways to visualise risk networks and analyse risk data points.

Finally, for those seeking to employ risk advisors, we also need to cast our net wider when we are recruiting and seek non-traditional skills such as systems thinking, data visualisation, strategy development, learning and development and business development skills.

Risk management as a profession is standing on the edge of an abyss. We need to look internally and manage our own risks. We need to address our own change management factors such as culture, roles and responsibilities, and capability and break out of the traditional risk management mould. If we don't understand the need to change and identify the right people to go on this transformation journey with us, the same thinking that got us into this place will most certainly not move us forward.

## RACHAEL PETTIGREW

Rachael is an Associate Director in KPMG's Wellington Risk Consulting practice specialising in enterprise risk management across a variety of sectors. Rachael's current role involves developing practical solutions to a wide variety of clients in the insurance, government, innovation and science sectors, and working with iwi.

Rachael has developed and implemented risk management frameworks that embed the organisations values and successfully deliver their strategic objectives, developed practical risk models that support organisations on their transformation journey, and assisted executive teams and Boards to understand their own personal accountabilities and deliberately influence risk culture.



## THE TRANSFORMATION QUESTION

SALLY PULLEY – *Extrinsic Services Ltd*

### The ongoing impact of Covid-19

As the former editor of RiskPost, writing this thought piece for RiskPost was a bit nerve racking. David Turner, our new Editor, asked me to write something about the ongoing impact of Covid-19, so here we go.

Change is a fact of life. Business and regulatory changes were complex and fast paced before Covid-19. Organisations invested large amounts of capital in research and marketing, seeking to understand the needs of markets and the evolving trends, technology advances, and market niches that would influence business architecture<sup>i</sup>, product development and buying patterns.

Covid-19 disrupted trends and introduced rapid disruption to private lives and business operations. To quote the Port of Tauranga's Chief Executive Mark Cairns "Every aspect of Port of Tauranga's operations has been impacted by Covid-19."<sup>ii</sup>

Geopolitical changes; the disruption of trade routes; mobility restrictions; increased societal focus on supporting local business and industry; all lead into the rapid development of new ways of working and new purchasing patterns which themselves may be fleeting, and simply an artefact of the brief co-existence of a set of circumstances.

At the same time, organisations face increasing social awareness and expectations of the 'social licence to operate' concept, the evolution of ethical investing, and expectations of organisational resilience.

Hearsay is that many organisations have ditched the concept of the five-year plan even as people hope for a new version of "normal" to emerge from the disruption.

So how have risk management professionals adapted their ways of working during the pandemic, and how might risk management standards and frameworks evolve in the face of scenarios of long-running disruption? Does the risk management profession need to transform itself to operate in the context of a volatile, uncertain, complex and ambiguous environment?

ISO 31000:2018 states that, "*Managing risk considers the external and internal context of the organization, including human behaviour and cultural factors.*"

The risk management process includes the establishment of context. The old garbage in, garbage out analogy applies.<sup>iii</sup> If context is not well understood, then the risk process itself becomes inherently flawed. Any outputs of the process - heat maps, risk registers, and other artefacts may be incorrect before they are distributed.

If a Board or a decision maker must make critical decisions based on an assessment of options and risks, they need to know the context in which they are operating. Potential futures may be unclear and exist only as a range of scenarios - but decisions still need to be made.

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Inevitably, each organisation will be different, and different people will have different levels of understanding of context: the current situation; what change is occurring; and potential cumulative impacts of change.

So how do you communicate and discuss context in a disrupted and unstable environment? Amongst all of the living-from-day-to-day priorities and disruptive noise, how can rapid changes in the external and internal context be identified, assessed, and discussed with key decision makers?

Over time, the pandemic will provide risk management researchers and authors with much material for reflective academic papers and books.

In the meantime, many organisations are running projects and surveys to provide some guidance for decision makers, and to initiate thinking about the future of the risk management profession.

As one example, the Governance Institute of Australia has launched a thought leadership project to examine and understand the future of the risk management professional:<sup>iv</sup>

*"2020 is the year of the risk management professional.*

*As the Covid-19 pandemic cuts a swathe across the globe, organisations have turned to their risk management teams for leadership and guidance.*

*As a result, the voice of risk at the board and management tables is now louder - and is increasingly being listened to.*

*But at the same time, risk management is becoming more complex and the transformation of the profession is set to continue as a result".*

How can our membership best provide insights and practical commentary to this transformation discussion? Please forward details of whatever thoughts you have, and information that would be useful to share to David (our MD) and Emily (our Admin Officer) so that information can be shared across the RiskNZ membership, and we can both individually and collectively contribute knowledge and experiences to surveys and research that will influence the future role of risk professionals.

## REFERENCES

- i. Business architecture is used in this article as a term to describe the holistic, multi-dimensional, business views of capabilities, end-to-end value delivery, information, and organizational structure, and the relationships among these business views and strategies, products, policies, initiatives, and stakeholders. With reference to the TOGAF standard.
- ii. "Covid-19: Business leaders weigh in on Government's coronavirus response", John Anthony, stuff.co.nz, 4 October 2020
- iii. Garbage in, garbage out: this is a slang phrase with its origins being attributed to the world of computing and software engineering. The Cambridge Dictionary website defines the term as meaning 'something produced from materials of low quality will also be of low quality'.
- iv. <https://www.governanceinstitute.com.au/advocacy/thought-leadership/the-future-of-the-risk-management-professional/>

# ENTERPRISE RISK MANAGEMENT AND INTERNAL AUDIT – WORKING TOGETHER TO LIFT RISK MATURITY WITHIN ORGANISATIONS

SURALDA TIMMERMAN – *Chartered Accountant (SA)*

## **The value of a fully integrated risk management system**

As a risk professional, I understand the confidence and comfort which independent and objective assurance can provide the governing body of an organisation. And as an internal auditor, I see the immense value of a fully integrated risk management system rather than having a bolt-on process.

My career spans two countries and positions in the private and public sector. I collect interesting audits and risk assessments like treasured mementos. I have worked at Robben Island Museum, a UNESCO World Heritage Site, where operations included cultural and political heritage, endangered species and ferry operations. I have audited strategies and processes in healthcare, insurance, railway operations, fisheries, retail property management and social services. In all these roles, I have always strived to understand what the strategies and objectives are which make these organisations so unique.

In an organisational context, risk is inherent in the pursuit of objectives. How well an organisation navigates uncertain times and volatile environments, depends on their investment into the structures and processes that enable organisations to succeed.

The Institute of Internal Auditors (IIA) issued the updated Three Lines Model in July 2020. The Three Lines Model helps organisations identify structures and processes which best assist with the achievement of objectives and facilitate strong governance and risk management.

In this article I will focus on the roles of Enterprise Risk Management (second line function) and Internal Audit (third line function) within an organisation based on the Three Lines Model. I will also provide practical suggestions for the improved working relationship between these two functions, to ultimately enable a higher level of risk maturity within an organisation.

## **The role of enterprise risk management**

Enterprise risk management (ERM) and other specialist second line functions provide first line management with expertise, support, monitoring and challenge on risk-related matters. <sup>i</sup>

Risk management is not static and is more than the listing of risks in risk registers. Risk management is the culture, capabilities and practices which organisations integrate within strategy-setting and apply when carrying out of the strategy, with the purpose of managing risk in creating, preserving and realising value. <sup>ii</sup>

The ERM function plays a vital role in embedding risk management culture, capabilities and practices within the organisation. ERM achieves this by ensuring that risk management becomes part of the organisation's management philosophy and not an add-on practice.

## **The role of internal audit**

Internal audit (IA) provides independent and objective assurance and advice on all matters related to the achievement of objectives.

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IA helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (IIA definition of internal auditing).

Internal auditors are not limited to focusing on the financial aspects of an organisation, but also consider risks related to strategy, operations, compliance, environmental and social responsibilities.

### **Why is there sometimes friction between enterprise risk management and internal audit functions?**

I have noted over the years some of the issues which contribute toward friction between ERM and IA are:

- Lack of alignment.
- Poor communication and coordination.
- Not knowing how to work together while still maintaining the independence of their functions.

As a risk manager, I could see how frustrated management would become when Internal Audit proposed solutions which were just not viable in their current operating environment. Could the risk be addressed in another way? I would spend many hours as a go-between for management and the internal auditors to resolve these kinds of issues.

As an internal auditor, I could not always rely on the risk profiles or risk registers produced by the organisation. Good risk profiles and registers are one of the key components to a good internal audit plan and it influences the commitment of audit resources.

### **Practical suggestions for working together**

#### **Alignment**

It is important for ERM and IA to use the same risk and control language when interacting with first line management. A well-developed risk management framework takes into consideration the strategy, operational environment and culture of the organisation. First line management become frustrated when ERM and IA use different impact and likelihood scales to rate risks or have conflicting definitions of what a control is.

At Robben Island Museum we had to develop a risk impact scale which could capture the different levels of risk within a hybrid organisation that includes heritage, ferry, ecological, educational, archival and tourism operations. Measuring risk on a generic risk impact scale was not possible. To develop this framework inputs from first and third line were crucial.

#### **Communication and coordination**

ERM works very closely with management to support them in the development and delivery of the organisation's strategy. Internal audit has a risk-based internal audit plan, designed to provide assurance and advice on very specific areas of risk within a given period.

The sharing of the risk work plan and internal audit plans is necessary for the following reasons:

- Shared understanding of the key focus areas for each function, to identify potential areas of duplication or key projects for collaboration.
- Coordinating timing of work to ensure that the first line staff are not inundated by requests from multiple units performing risk and assurance activities at the same time.
- Current and emerging risk trends which the ERM team is observing within the organisation, as this information could impact the delivery of the internal audit plan.
- Understanding the risk maturity of the organisation and how this impacts the delivery of planned work for both functions.

Frequent communication and engagement between ERM and IA are key to a better working relationship.

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## Collaboration

In building a better working relationship that will benefit the organisation, it is also important to consider areas where ERM and IA can collaborate.

IA and ERM can work collaboratively to explore root causes for internal control failures and come up with solutions which will be cost effective and address the risk adequately.

ERM can then use internal audit reports to facilitate informed discussions with the risk owner.

As risk manager I worked closely with an outsourced internal audit function to incorporate a control effectiveness rating scale into the audit reporting. This same scale was then used in risk registers to show how the effectiveness of controls impacted the residual risk rating.

## Cross-discipline development

ERM and IA are two complementary specialist fields. Creating opportunities for team members to be seconded into these roles, enables professionals to view the full risk management and assurance cycle from a more holistic perspective. This creates the opportunity for risk and internal audit specialists to develop new skillsets and enhance their capabilities.

It should be noted these secondments should be carefully considered to safeguard the independence and objectivity of the internal audit team members. Once internal auditors return from secondment to ERM, they should not audit any key risk areas which they were involved with during their secondment.

In conclusion, ERM and IA have a significant role to play in how an organisation manages its risk while developing and implementing its strategic. By working together in a coordinated and collaborative way, with open communication and the willingness to learn from each other, these two functions can enhance the risk maturity level within their organisation.

## References

- i. <https://global.theiia.org/about/about-internal-auditing/Public%20Documents/Three-Lines-Model-Updated.pdf>
- ii. <https://www.coso.org/Documents/2017-COSO-ERM-Integrating-with-Strategy-and-Performance-Executive-Summary.pdf>

## SURALDA TIMMERMAN

Suralda Timmerman is a Principal Internal Audit Advisor at ACC. She has over 15 years' experience in external audit, internal audit and enterprise risk management. Suralda has worked at EY South Africa, PwC New Zealand and Robben Island Museum. During her time at Provisional Government Western Cape she was the internal audit manager for the Department of Health. She assists organisations in implementing practical risk management and assurance frameworks which ensure benefits to the organisations' stakeholders.

# INTEGRATING RISK AND RESILIENCE FOR FUTURE SUCCESS

## NIGEL TOMS – Watercare Services Limited

### **Why organisations should adopt unified risk-and-resilience approaches in order to improve performance in future disruptive events**

It is clear that organisational success responding to events in this increasingly complex world is only going to come from integrating risk management with resilience approaches.

I have long been a champion of unifying risk-and-resilience and have been applying it here at Watercare successfully for a number of years. The perfect opportunity arose to highlight its importance to large organisations when I was invited to become the technical author of the recently published PAS 60518:2020 titled Developing and implementing enterprise risk and resilience management (ERRM) in utilities standard.

As technical author responsible for the drafting and development of the standard and as a member of the Steering Committee, I worked to ensure that the standard provides a process for integrating risk and associated resilience for utilities, regardless of where they are on their risk and resilience journeys.

Published in July 2020 by the British Standards Institute (BSI) and sponsored by the Dubai Electricity and Water Authority (DEWA), this PAS is designed to lead organisations through the process of developing risk management capability and building their adaptive capacity to enhance resilience.

Both I and the international Steering Committee wanted to ensure that the standard reflects how risk and related resilience thinking has changed. Resilience was previously viewed as the ability to recover quickly from difficulties but is now seen as the ability to survive a crisis and thrive in a world of uncertainty.

Resilience is more challenging to understand than risk and should be viewed as an organisation's adaptive capacity to respond to unexpected (including very low likelihood/very high consequence) events. Lifeline utilities should look to build up and improve enterprise resilience to ensure they can continue to provide critical services, regardless of the myriad of potential challenges they could face.

There is a clear link between risk and requirements for increased resilience. Resilience is guided by a holistic understanding of the organisation's risks and comprises business continuity, incident management and the wider adaptive capacity to resist, respond and recover from extreme events.

An understanding of the most significant risks provides a guide on the key areas of focus where resilience requires enhancement. This extends to improving staff capabilities and use of extended supporting networks to develop a holistic set of responses.

This continuing journey includes:

- Building resistance, e.g. to protect critical assets
- Developing response and recovery capability starting with specific business continuity and an organisation wide incident management plan.
- Extending organisation-wide capability to provide the adaptive capacity to respond to all events
- Lastly, to reinforce using the learnings from events to improve for the future. In this regard the term 'build back better' is often used, however, wider thinking is required and should extend to 'building back differently'.

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It is often difficult to contextualise these challenges, so a simple example is given below. Assume that during the period of the event that normal operations would also need to be maintained and all work would have to be completed in the same timeframe:

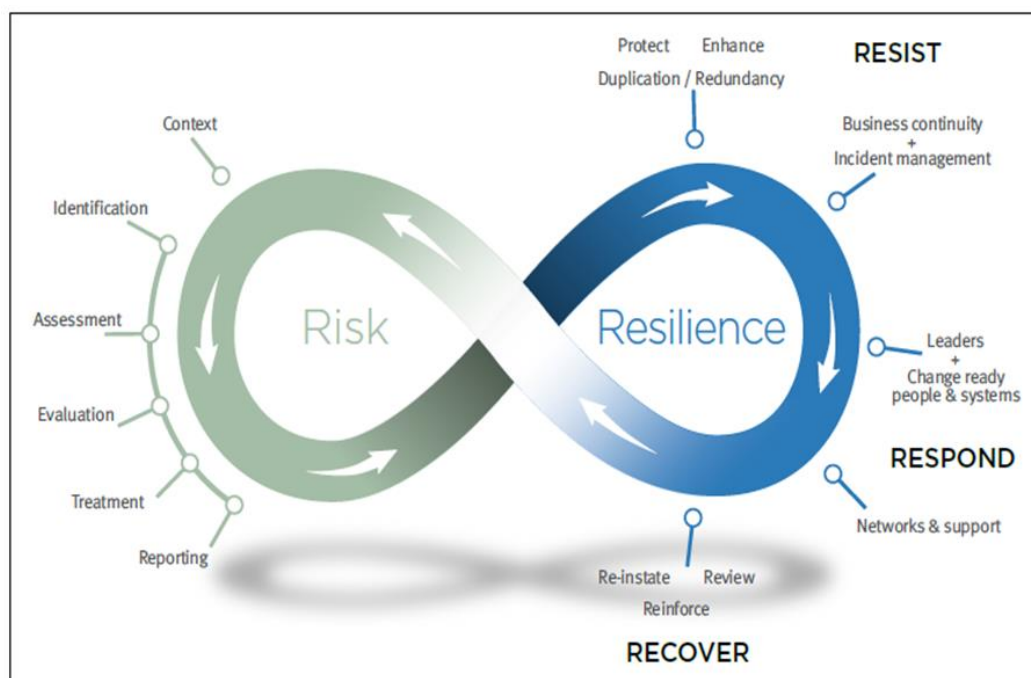
- The operating capacity of one critical asset must be slowed below its current minimum capacity and another with different technology must be enhanced to operate above its current maximum capacity. Both must continue to operate with no failures.
- There is a requirement for major changes to processes and systems to support new operations, some of these changes are new and not previously attempted. Again, this must be achieved without failures.
- Additional construction projects must be initiated and delivered, through procurement to completion of construction in timeframes that have never previously been attempted.
- Leveraging support from extended networks, with consultants, contractors and suppliers will all be required to provide enhanced and additional support above currently available levels and with an expectation that they will do their part to meet these challenges.
- With a limited number of critical staff available to provide the support and initiatives and actions, the organisation will need to flex to provide support from across the wider business and upskill to ensure this support can be maintained.

While these circumstances may seem unrealistic, responses to Covid-19, droughts and fires all result in a call for a wider range of response actions. Success in these circumstances can be greatly improved by advanced preparation and enhanced adaptive capacity.

The key focus areas for ERRM include:

- Maximising organisational capability
- Informing the understanding of risk management, including areas where more risk could be accepted
- Identifying areas where business continuity and incident management plans are required
- Aiding decisions on capital investment to increase organisational resistance
- Improving resilience, including response, recovery and supporting resource and network capabilities

### This PAS uses an integrated enterprise risk and resilience (ERRM) model



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An integrated approach to understanding risk and using this to guide resilience development will make an organisation increasingly capable and quick-to-recover when faced with challenges. A continuing programme of resilience work should ideally be undertaken to ensure that the organisation can adapt to changing environments. Effective ERRM enables just such an integrated approach.

Utilities and other large organisations should develop and implement ERRM policies and frameworks that are driven by the context of the organisation (strategic objectives, vision and mission) and directly address its risk profile and operating model. It should aid directing the risk and resilience function, prioritise enterprise risks and provide effective oversight of the processes that drive risk management, and mitigation actions.

Ideally, the ERRM policy and framework should be accessible to staff at all levels and reviewed regularly to account for any organisational changes. Training staff to ensure understanding, competence and capability, will enable organisation-wide commitment to ERRM, and successful performance when these challenges occur.

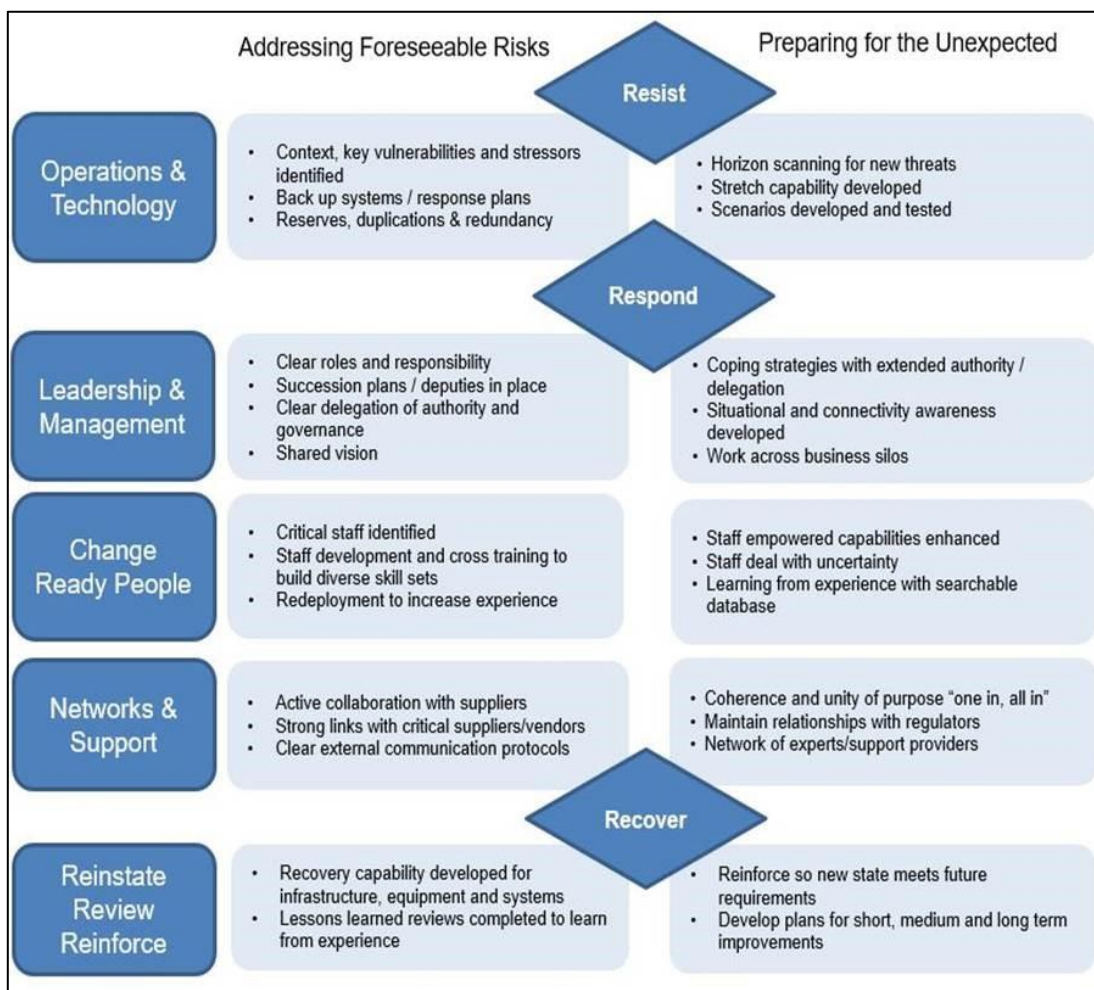
Effective risk and resilience practices take time to build and need to be driven by the leadership team within organisations. Understanding and prioritising risk is a key requirement to make the case for the investment in resilience. Understanding the financial value (that is the return on such an investment in monetary terms) is aided by an understanding of the vulnerabilities that increasing resilience seeks to address. The leadership team within organisations should also build resilience thinking into the company's culture, by demonstrating their own personal commitment to it. This includes being active in the development and exercise of plans and having processes to maintain unity-of-command when senior executives are absent.

Some good ways to drive improved resilience include:

- Run incident practices/exercises using varied staff teams. This increases understanding across the organisation and reduces reliance on a small cadre of well-experienced managers and senior staff.
- When there are incidents, form an incident team and require less experienced staff to act as deputies. This improves skills without hampering the overall incident response.
- Make incident response capability and experience a pre-requisite for staff looking for advancement
- Make sure all those involved in responding to and recovering from an incident take part in the lessons learned exercise after completion.
- Make sure staff training and reporting systems within the organisation include a record of this experience.
- Continue to look for new ways to train staff to improve their adaptive capacity.
- Include key members of the organisation's support network (contractors, consultants and suppliers) in training exercises. This is one of the best, but most under-utilised, ways of increasing understanding about each other's capabilities.

An example of an outline for a resilience framework is given in the diagram on the next page.

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Risk and resilience is a continuing journey and PAS 60518:2020 includes information, templates and practical examples that together provide a path to ordered development, taking utilities on a structured journey to develop and improve their organisational resilience.

For more information on PAS 60518 please visit:  
<https://shop.bsigroup.com/ProductDetail?pid=000000000030390660>

## NIGEL TOMS

Nigel Toms is Acting CFO of [Watercare Services Limited](#), the sole provider of water and wastewater 1.7 million Aucklanders. Prior to his appointment as CFO, Nigel was Head of Risk and Resilience at Watercare.

Nigel is the technical author responsible for the drafting and development of [PAS 60518:2020 Developing and implementing enterprise risk and resilience management \(ERRM\) in utilities standard](#), published by the British Standards Institute (BSI) in July 2020. He was also a member of the Steering Committee.

In his time at Watercare, he has developed and grown the risk function to become a key part of the executive. Nigel championed and developed Watercare's own enterprise risk and resilience framework and the PAS 60518:2020 draws upon his expertise and reflects some of the ERRM work done there. Nigel can be contacted at [nigel.toms@water.co.nz](mailto:nigel.toms@water.co.nz)





## RESILIENCE IN INFRASTRUCTURE – REPORT REVIEW AND CASE STUDY REFERENCE

### SUE TREZISE – Sue-lutions Ltd

This article provides a brief overview of the *Anticipate, React, Recover: Resilient infrastructure systems*, published in July 2020 by the UK National Infrastructure Commission. The case studies reviewed by the Commission cover a range of scenarios and sectors which could be useful for risk scanning and business continuity planning in the NZ context.

In 2018 the UK's National Infrastructure Commission undertook a study on the resilience of that nation's economic infrastructure. While the study drew on evidence collected before the COVID-19 pandemic, it can inform thinking about recovery from this type of situation also and help ensure resilience for future challenges.

The Commission's report *Anticipate, React, Recover: Resilient infrastructure systems* focuses on lessons learnt from previous disruptions and failures and the response of the UK's energy, water, digital, road and rail infrastructure. It sets out a vision for a resilient UK: equipped and ready to respond to whatever an uncertain future may hold. Maintaining a resilient system requires a proactive approach: a framework for resilience. Such a framework would see resilience standards set by government and encourage infrastructure operators to carry out stress tests and address any vulnerabilities. It would also value resilience properly and drive adaptation before it is too late.

<https://www.nic.org.uk/our-work/resilience/>

Of particular interest is the technical annex to the report which presents a selection of the key case studies reviewed in the study. The list below (taken directly from the technical annex) includes the infrastructure sectors highlighted by the case studies:

1. Beast from the East 2018 – water, power
2. August 2019 power outage – power, rail
3. Summer floods 2007 and the Pitt review – power, water, roads, flooding
4. O2 network outage 2018 – telecoms, transport
5. National rail timetable disruptions 2018 – rail
6. Thames estuary 2100 plan – flooding, cross-sector
7. Forth Road Bridge closure 2015 – roads
8. Rail impacts during heatwave 2019 – rail
9. Lancashire Cryptosporidium water contamination 2015 – water
10. Lancaster winter floods 2015/16 and the Flood Resilience review – power, telecoms, flooding
11. Water resilience and regional water planning 2020 – water

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Each case study includes a summary description of the event (cause, impact, outcome) and key findings along with specific examples of good practice and areas of improvement. The examples highlight actions and attributes spanning the six aspects of resilience: anticipate, resist, absorb, recover, adapt, and transform. These provide tangible measures that can be taken by infrastructure operators, regulators and government to enhance resilience.

The examples of good practice and areas of improvement are likewise a valuable reference for risk and business continuity practitioners to prompt and inform management discussion and decision making for improving organisational resilience. Bear in mind too that resilience will likely involve a trade-off between the benefits and disbenefits of a system's attributes. An example of such a trade-off is the tension between allocating resources to improve BAU efficiency and productivity, versus investing in adaptive capacity to deal with future challenges and stresses.

Any serious thinking about resilience needs to consider reducing the existence of and exposure to disruptive conditions, lowering uncertainty, and addressing vulnerability, as well as dealing with the consequences of disruption. An organisation that does little to protect themselves from disruptive conditions, will forever be faced with the need to respond to and recover from actual disruption.

<https://www.nic.org.uk/wp-content/uploads/Technical-Annex-Good-practice-case-studies.pdf>

## SUE TREZISE – *Sue-lutions Ltd*

Sue Trezise has over 12 years experience providing risk expertise and advice for government and organisations on strategic, enterprise and operational risk management. An experienced facilitator, Sue assists communication between technical experts and non-technical stakeholders and makes managing risk practical and effective.



# WHAT ROLE DOES 'ORGANISATIONAL CULTURE' PLAY IN REDUCING THE RISKS OF CRISES OR DISASTERS?

SILVIA ZANINI

**How BP's organisational culture played a role in the Deepwater Horizon disaster**

## Introduction

Organisational culture is a complex concept, often simplistically summarised, partly because it is a common-sense term. We are all familiar with the idea of culture and instinctively know its meaning, usually based on our own experiences.

Organisational culture is often quoted as a key factor in the success or failure of organisations and has become a popular topic both within the academic and business environments. Kennedy, one of the authors of the 1982 'Corporate Cultures' book, reported that after its publication he was often approached by managers asking for an organisational culture that would produce superior performance. This desire is consistent with the view that one common culture is generally displayed throughout an organisation and with the belief that this common culture can be driven from the top and imposed on the organisation, its managers able to manipulate and control it, to achieve their strategic goals.

But this is a very optimistic view. A study of organisational change involving six large corporations concluded that company-wide change programs, attempting to change a company culture and driven from the top, fail. Successful change programs start at a local level and are led by local leaders. Culture is not a way to manipulate and control an organisation. Culture is built from the bottom up, created by members of a group - not imposed, not uniform across the entire organisation, but a composite of the sub-cultures existing within the organisation.

There is a relationship between organisational culture and safety culture: organisations with 'strong' cultures (and consequent organisational success) display characteristics similar to those with 'good' safety cultures which, if implemented, can avoid or reduce the risk of organisational failure.

In 1997 James Reason provided a useful model to analyse a safety culture. He mentioned how reporting must be in place, comprising data on faults, errors and near-misses; that employees must be encouraged to provide safety-related information and clear, known, boundaries between acceptable and unacceptable behaviour must be provided; also, the organisation must be flexible, able to change from a hierarchical to a decentralised structure when needs arise; and it must be able to learn, absorb information and implement change. When this model, combined with the needed support from the top, is used to analyse the Deepwater Horizon (DWH) crisis, there is confirmation that lack of safety culture contributes to increasing the risks of crises and disasters.

## Deepwater Horizon (DWH)

The DWH rig was a semisubmersible exploration drilling rig in the Gulf of Mexico, owned by offshore drilling contractors Transocean and leased by BP, preparing to temporarily abandon the Macondo well. On 20th April 2010, the crew were preparing for the well completion, the final operation before abandoning the site to allow production at a later date. Earlier, the pipe casing that ran into the well to prevent oil and gas from flowing up the drill hole, had been cemented in place. Operations prior to disconnecting the well had started when a

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surge of natural gas blasted through the concrete core, reached the platform, then the engine room, where it ignited, causing an explosion which killed 11 workers and injured 17. Two days later the rig capsized and sank and oil started spilling into the Gulf at a rate of 60,000 barrel per day.

Operations at the exploration rig were complex and involved BP as well as several contractors. BP as the primary owner of the risk, was however primarily responsible for safety.

### **BP's (lack of) safety culture**

The reporting culture within BP, and between BP and the contractors, was marred by inadequate communication, with silo decision making, often based on incomplete information, and a reluctance to consult with experts. No policies existed requiring the need for second opinions, or consultations, when employees were faced with unexpected test results, or when they needed help. BP concentrated on occupational, or personal, safety, not on process safety (the procedures focussed on preventing catastrophic accidents and minimising safety risk). Process safety information was not proactively addressed, with issues such as lack of equipment testing and maintenance, poor standard operating procedures, and lack of training ignored, indicating an ineffective risk management processes.

The line between acceptable and unacceptable behaviour was blurred, and compliance with rules and procedures, and safe operating practices, were not the norm. Alarms and critical safety systems were not functioning or had been inhibited prior to the explosion due to false alarms. An atmosphere of trust lacked on DWH, in an employee survey carried shortly before the blowout, around 46% of employees felt that there would be consequences for reporting unsafe situations which would have meant a reluctance to speak out on safety issues.

BP did not display organisational flexibility, meaning that it was not able to adapt to emergency situations, and delegate decisions to those with the expertise. Personnel on the rig were inadequately trained, they had not been provided with detailed guidelines on how to perform and interpret procedures such as negative pressure tests, or how to monitor the well for kick activities during temporary close-out operations. There had been no adequate training for emergency situations. The lack of preparation set the employees up for failure and resulted in delayed decisions and response confusion, for example the general alarm was not manually triggered even after several gas alarms started sounding throughout the rig. While the crisis was developing, key decisions were delayed, as the crew waited for instructions, and vital information was not passed on: the workers in the engine control room were not immediately informed of the scale of the situation. When they became aware of it, the engine control room was not shut down, awaiting instructions from the bridge. The evacuation was chaotic, with lifeboats leaving half empty, and the inflatable raft used as a last resource snagged its rope during launch and no knife could be found to free it.

There were no processes in place to enable organisational learning from internal accidents and near-misses, and from external crises and disasters. In 1988, Piper Alpha, a UK oil production platform exploded, resulting in 167 casualties. Eight months prior to the DWH explosion, a blowout of the Montara well, offshore Australia, occurred. There are many parallels between these two events and the DWH's explosion, BP missed good learning opportunities from these external disasters. BP also missed good learning opportunities from internal accidents: between 2005 and 2009 four major accidents occurred causing death and injuries as well as environmental damage. After the first accident, an explosion at the Texas City BP's refinery, the US Chemical Safety Board recommended that BP commission an independent body to evaluate and feedback on the effectiveness of BP's safety culture. The report found that BP did not have effective leadership on process safety, that there was not a positive, trusting and open environment, that communications between management and workforce were ineffective, and there was an inability to identify risks due to poor levels of hazard awareness. All this resulted in lack of early warning for potential problems. Implementing the report's recommendations would have needed a fundamental culture change, requiring considerable time and resources. Needless to say before any material changes could be implemented the DWH crisis occurred, proving that BP had not yet been able to learn from past experiences.

*Continued on next page...*

Attitudes towards safety are set from the top. Without CEO and senior management support, resources will not be dedicated to safety and it is unlikely that an organisation will succeed in implementing a safety culture. An analysis of 19 speeches made by the BP's CEO before the DWH disaster, including the AGM speech delivered a few days earlier, concluded that the CEO set the focus on achieving financially, reducing costs, and increasing capital efficiency. Mentions of safety as a first priority seemed disingenuous, as explanations of how safety would be achieved despite cost cutting and economic efficiency were not offered. BP's culture was one of cost cutting and risk taking.

Once the crisis evolved into a disaster BP continued to display elements of poor safety culture. BP downplayed the extent of the damage it caused, with the spill described as 'tiny' and its environmental impact 'very modest'. BP attributed blame to two of the rig supervisors and to other companies involved in the exploration of the Macondo well, and concentrated only on the technical causes of the disaster, without a mention to organisational and safety issues. This is understandable, given the hefty fines and penalties at stake - in 2016 costs amounted to approximately \$62b - but is demonstration of a culture unbalanced between safety and economic efficiency.

## Conclusion

Applying Reason's model shows that BP's culture contributed to the DWH crisis and disaster. BP did not have a just culture, it was not a flexible organisation, its people were not empowered to make decisions and were unable to trust procedures and equipment which contributed to a lack of preparedness. BP was not set up to report and act on process safety, with consequential poor organisational learning. Lack of senior management support contributed to BP's poor safety culture: the message from senior management underlined the importance of cost savings and economic efficiency, resulting in decisions driven by costs, not safety. The necessary balance between economic efficiency and effective safety culture was not achieved: resulting in the DWH crisis and disaster.

The same contributing factor can be found for many other crises and disasters and, unless organisations are able to achieve a good safety culture, will be found in future ones.

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Silvia is a risk manager currently working in the financial services sector, she recently gained a Risk, Crisis and Disaster manager MSc at the University of Leicester.

Silvia has extensive risk and audit experience gained in Italy, the UK and NZ.

# COVID-19 – UNFINISHED BUSINESS

a poem by LYND A MCCALMAN

The world as we once knew it  
Will likely never be the same  
The result of a deadly pandemic  
Where we all became fair game

It does not differentiate  
Whether by age, gender or race  
And once there is transmission  
It is difficult to outpace

Fever, dry cough and tiredness  
Are symptoms that we're told  
With breathing difficulties acute  
As our lungs are taken hold

Still millions of confirmations globally  
With the death toll on the rise  
It unleashes a tsunami of hate  
We show solidarity in our despise

We're told "let's not assume  
That we're not going to be infected  
But prepare as though we may be  
And follow the guidelines as directed"

Being kept indoors for weeks  
And with rules we had to adhere  
Suspicious of all around us  
In our hidden darkness of fear

Isolated in our own bubbles  
As we whiled away the hour  
Stocking up wildly on toilet paper  
Yet running out of flour

Venturing out only when needed  
But continually remaining guarded  
We're let down by our Ministers  
Whose own rules they rashly discarded

With borders closed to non-kiwis  
Or those on compassionate grounds  
Running low on approved accommodation  
Transporting confinees to various towns

Our economy is under pressure  
Businesses are struggling to make ends meet  
Unemployment is on the rise  
As some jobs become obsolete

But kiwis being kiwis  
We seem to take it all in our stride  
An increased focus on buying "local"  
For in our country we take great pride

We know we played our part in New Zealand  
As the world watched on in wonder  
Now the Ministry of Immigration is inundated  
With migrants wanting to move down under

And let's not forget our dear Ashley  
The full support that we received  
So attune was he to our feelings  
A certain calmness was achieved

A crisis can bring about emotions  
That unchecked can cause much strife  
With humanity we were cared for  
With limited loss of life

But there's still unfinished business  
As the world awaits a vaccine  
It could be months, but likely years  
Before a cure is on the scene

Until then we remain vigilant  
As we wait for the COVID cloud to lift  
We're reminded that yesterday is history  
Tomorrow a mystery and TODAY IS A GIFT

## BACK ISSUES OF RISKPOST

The back issues of RiskPost are available on the members area of the RiskNZ website - select the menu option Member Resources | RiskPost.

The following articles from RiskNZ members can be found in the back editions in addition to the regular series of topical articles and updates from Kristin Hoskin, Sue Trezise, our Chair, our Sponsors, and members of the Board.

The articles provide enduring knowledge - just remember that the articles were written to be current at the point of publication. If in doubt about the currency of the content - contact the Editor@risknz.org.nz and we will pass your queries onto the author.

### June 2020

- MSC in my back pocket. Author: Silvia Zanini
- The buck stops here: governance owns all of the risks. Author: Nick Lewis
- Using Work Domain Analysis in a safety case development. Author: Dr Margaret Trotter
- Understanding and managing interconnected risk with bowtie analysis. Author: Ross Liston
- Electronic voting risks and vulnerabilities – an information systems security approach: Author: Cybele Souza

### March 2019

- Leicester University Distance Learning - Risk Crisis and Disaster Management. Author: Silvia Zanini
- Risk Homeostasis Explained. Author: Grant Avery

### December 2018

- How Effective is Managing the Risks of Uncertainty with people. Author: Brent Sutton
- Turning the Induction into a Powerful Risk Management Tool. Author: David Turner
- Building our Disaster Resilience. Authors: Jo Horrocks and Jane Rollin

### September 2018

- Practice Note: Quantitative Risk Analysis as an input to Options Decision Making. Author: Mike Wood
- How an Informed Culture can help Project Success. Author: Silvia Zanini
- Post Implementation of Anti-money Laundering Compliance. Author: Kerry Grass
- What's in a Business Model? Author: Ben Stephens

### May 2018

- From Risk Management to Resilience. Author: Nigel Toms
- New Zealand Spreads a Wider Net to Detect Money laundering. Author: Kerry Grass
- Abstract: Informing Decision-Making in the Face of Adversity. Author: Miles Crawford

### February 2018

- Research Excerpt - Risk Modelling. Author: Miles Crawford
- Paper - Considering the Human Factor. Author: Cathy Hua
- My Thoughts - Remote Worker Risk. Author: Cameron Smith

2017, 2016 and 2015 editions of RiskPost are also available on the website for your reference.

# CALL FOR NOMINATIONS FOR THE 2021 RISKNZ BOARD

RiskNZ invites you to consider standing for a position on the RiskNZ Board.

In 2021 we need to elect six Board members.

Nominations close at 5:00pm on Friday 27 November 2020.

This is a particularly exciting time to be a member of the Board, as we develop and implement new ideas and initiatives.

All information, including the nomination form, can be found in the Members Area of the RiskNZ website [here](#).

For more information on Board membership please contact the Chair of the RiskNZ Board [chair@risknz.org.nz](mailto:chair@risknz.org.nz)



## RISKNZ INFORMATION

### THE MANAGEMENT BOARD AND OFFICERS OF RISKNZ

Chair:	Stephen Hunt	Deputy Chair:	David Turner
Secretary:	Katie Phillips	Managing Director:	David Turner
Treasurer:	Gary Taylor	Administration Officer:	Virtual Assistants Ltd

#### Management Board Members:

Brent Sutton	Kristin Hoskin
Duncan Stuart	Lynda McCalman
Imogen Perez	Vaibhav Bhatnagar
Jane Rollin	



# CONFERENCE 2019 AND AWARDS OF EXCELLENCE 2019



## RISK NZ

## SAVE THE DATE

### RiskNZ Conference 2021 – Recalibrate and Reconnect

How do we take what we've experienced, acknowledge what's changed, and take that into 2021 and beyond?

Hear key speakers share their stories from tumultuous times, participate in round table discussions reconnecting risk practitioners with each other, share your stories, create new networks and help strengthen your own personal risk-resilience network.

Date: April 2021

Where: Wellington

Look out for more details and registration details coming soon

An Auckland  
conference is being  
planned for the last  
quarter of 2021!

## LATEST READS

Find all of our latest reads [online](#)

- [Cyber-crime skyrockets alongside remote working](#)
- [Bio-threats pose growing risk for New Zealand, Pacific](#)
- [What are the top risks facing New Zealand's businesses today?](#)
- [TikTok controversy ushers in new age of cyber threats](#)
- [\\$1.60m a year: Sweeping new assessment of NZ's big flood threat](#)

## RISK NZ ON YOUTUBE

Did you know RiskNZ has a YouTube Channel?

All of our popular Lunchtime Seminar webinars are recorded and now available for you to view so visit our [official Youtube channel](#) now!

We are always adding more, so don't forget to subscribe to our channel to see all our videos as soon as we publish them.

Here are a few:

- RiskNZ Lunchtime Seminar – 7 April 2020 - [Creating strategic advantage from uncertainty](#)
- RiskNZ Lunchtime Seminar - 5 May 2020 - [An overview of coronaviruses past and present](#)
- RiskNZ Lunchtime Seminar - 10 September 2020 - [The ways sustainability is changing our industry](#)



What organisations spend on risk is much more than just insurance premium and also includes retained losses, saving for volatility and risk management expenses, this is called your 'Total Cost of Risk'.

The focus for Marsh Advisory is quantifying your Total Cost of Risk, benchmarking it against peers and then working with you to design the strategy and execute the solutions needed (from the board to operations level) to sustainably reduce your Total Cost of Risk.

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## INFORMATION FOR CONTRIBUTORS

Work on Edition 1 of RiskPost 2021 will start in December 2020 with an aim to publish end of March 2021.

Contributions should be sent to [editor@risknz.org.nz](mailto:editor@risknz.org.nz). Articles are welcome at any time; please contact the editor if you wish to discuss an article. A reminder will be issued mid-January 2021.

RiskPost provides a service for the display of notices and advertisements that are aligned with RiskNZ's objectives. Members are welcome to submit notices and advertising material to RiskNZ. Notices may describe an activity or service, or advertise a risk management vacancy.

Advertisements can be included in RiskPost and delivered by email to the RiskNZ membership base. RiskNZ's charges for advertising in RiskPost and by email vary dependent upon membership status, and the nature and scale of the advertisement.

For further details on RiskNZ's submissions of notices, advertising, and relevant changes, please send an email to the Administration Officer: [adminofficer@risknz.org.nz](mailto:adminofficer@risknz.org.nz), or write to:

RiskNZ, PO Box 5890, Wellington 6140

We regularly post events and other useful information on our [LinkedIn company page](#) - so click through and follow for up to date information!



Membership of RiskNZ is open to any person of good character or an organisation engaged in or with an interest in the practice, study, teaching or application of risk management.

RiskNZ is keen to attract a wide range of Individual and Corporate members representing all the different aspects of risk management knowledge and practice. This includes those with direct involvement in the field and those with a personal or community interest.

Find more information on our website [here](#).

## REFER A FRIEND!

We are now offering our members a discount for bringing new members on board.

Share the [benefits of a RiskNZ membership](#) with your friends and colleagues, and you will receive a one off 25% discount on your next annual subscription!

Make sure they tell us that you referred them and to enter your name on their application form.

To apply, and to find out more about RiskNZ membership, please [click here](#).

*This is a trial and will expire on 31 December 2020.  
Discount applies to existing members only.  
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## STUDENT MEMBERSHIPS

Did you know RiskNZ has student memberships?

Are you studying in the area of risk practice, risk management and risk-oriented decision making?

Or know someone who may benefit from our student membership?

RiskNZ student membership comes with [many benefits](#), such as increased connectivity and networking with the growing risk community across New Zealand.

## RISK NZ WELCOMES NEW MEMBERS

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