THE TRANSFORMATION QUESTION

S A L L Y   P U L L E Y – *Extrinsic Services Ltd*

David Turner, our RiskPost Editor, asked me to write something about the ongoing impact of Covid-19 for the November 2020 edition.

In the time since that article was published, WorkSafe has filed charges against 13 parties after an investigation into the Whakaari/White Island disaster, and the Governance Institute of Australia has published the report of their major thought leadership project, the 'Future of the risk management professional'.[i]

The RiskPost article has been updated to reflect these events.

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,[ii] 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." [iii]

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 Covid 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.[iv] 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.

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. As Boards continue to embrace diversity, board members will naturally apply their diverse levels of knowledge and experience to their ways of thinking about problems, and to decision-making.

So how can 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 published a thought leadership report, the Future of the risk management professional. Based on a survey of almost 350 professionals, an expert roundtable discussion, and in-depth interviews with three leading risk management experts, the report examines the key challenges likely to hit next - and outlines how the risk management professional can best prepare for more rapid change.   The report is well worth a read. Strategic and technical aspects of the role are discussed, alongside the attributes and skills that will be required for risk managers to be effective in their roles.

In addition to an expected plethora of reports on Covid reflections and reactions, WorkSafe has filed charges against 13 parties after an investigation into the Whakaari/White Island disaster which occurred in December 2019. WorkSafe's charges can be expected to test and refine New Zealand's regulatory system, and further develop case law. The reporting of the cases will influence societal expectations for the management of risk.

International standards are upgraded and published on a cycle that may not keep pace with case law and rapid developments in the expectations of organisations and decision makers. The question will be – are standards ahead of the game or will they lag behind changes that are introduced as a result of the pandemic, global disruption, local regulation, and societal expectation?

Organisational expectations of a risk management function are likely to be set by the Board, or the senior decision makers within an organisation, in advance of standards development. Risk practitioners should keep a watchful eye on external factors that will affect how organisations refine and develop their risk management capabilities.

REFERENCES

i.   https://www.governanceinstitute.com.au/advocacy/survey-reports/future-of-the-risk-management-professional/

ii.   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.

iii. "Covid-19: Business leaders weigh in on Government's coronavirus response", John Anthony, stuff.co.nz, 4 October 2020

iv.   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'.

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.