

**Balfour Beatty**

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# Agenda

- Overview of Balfour Beatty
- Enterprise Risk Management
- Risk Management Software
- So is software important for ERM
- RM Software Selection

# Overview of Balfour Beatty

# Balfour Beatty Overview

- 2008 Accounts:
  - Turnover: £8.26 billion
  - Profit: £249 million
- Became a FTSE 100 in January (same month as we celebrated our 100<sup>th</sup> birthday)
- First contractor to do so for 15 years
- Decentralised business model: a range of Operating Companies (OpCos) across the globe (some are agents others are individual trading companies):
  - UK & Mainland Europe
  - Middle East
  - Southeast Asia
  - USA
  - With a range of projects and 'sub offices' around the world: from Australia to Peru...
- A range of product sectors
  - Building & Building Management & Services;
  - Civil and specialist engineering;
  - Rail engineering and services;
  - Investments.

# Enterprise Risk Management

COSO

# What is Enterprise Risk Management? (From COSO 2004)

- *Enterprise risk management is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and **across the enterprise**, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.*
- The definition reflects certain fundamental concepts. Enterprise risk management is:
  - A process, ongoing and flowing through an entity
  - Effected by people at every level of an organization
  - Applied in strategy setting
  - Applied across the enterprise, at every level and unit, and includes taking an entity level portfolio view of risk
  - Designed to identify potential events that, if they occur, will affect the entity and to manage risk within its risk appetite
  - Able to provide reasonable assurance to an entity's management and board of directors
  - Geared to achievement of objectives in one or more separate but overlapping categories

# Risk Management Software

# Risk Management (RM) Software

- There are some very impressive tools out there:
  - They have greatly improved over the years: previously they had quite a fixed methodology and limited ability to alter the appearances without changes by the software vendor;
  - now software tools can mirror your processes and procedures and manage it yourself;
  - There is a growing difference between process risk management and project risk management which results in different tools being more applicable to others;
  - Some are aiming for banks while others are focusing on industry.
- There are many reports about RM software (i.e. The Forrester Wave™: Enterprise Governance, Risk, And Compliance Platforms, Q4 2007).
- Many have developed bespoke internal tools;
- Some use ‘add-ons’ for excel;
- Others just use a MS Word / MS Excel template.
- So how will technology help with ERM?

## RM Software

- Balfour Beatty has a bespoke tool and we periodically benchmark this against the marketplace and review its effectiveness. The last review identified some interesting thoughts:
- What we quickly understood was that:
- The best OpCos had the same characteristics:
  - The culture was very risk aware;
  - The requirements of the project staff ‘inputters’ was very clear and as simple as possible;
  - The staff followed the management systems;
  - Clear management review and challenge process; and
  - The risk managers tenacity and dedication to produce meaningful reports and data analysis even when the tool was severely limiting in this area.
- None of this had anything to do with software...
  - It was about the correct culture, process and people.

## RM Software WILL:

- Reduce risk reporting time;
  - Auto consolidation etc
- Become a 'one stop shop for risk management'; and
  - Everything in one place opposed to many
- It would improve the risk managers life *but not necessarily* the inputters life.
  - The risk manager can interrogate the data, develop new charts and reports etc
  - Possibly, it will take more time for the inputter than before as people are comfortable with excel / word or old systems that has been in the business for many years

## RM Software WONT:

- Improve the process and procedures;
  - It will automate a bad process
- Improve the quality of the data;
  - Garbage in = garbage out
- Improve the decision making process;
  - It may even make it worse as people challenge software less than they do people

## RM Software COULD:

- If project planned well it can:
  - Improve the awareness of RM and its importance as its seem as an investment by the company;
  - Empower staff as they were consulted in the selection process;
  - Improve the decision making process as they have to follow the methodology prescribed to them (and not taking shortcuts); and
  - Allow the risk manager to do less processing and more value adding activities

So is software important to ERM?

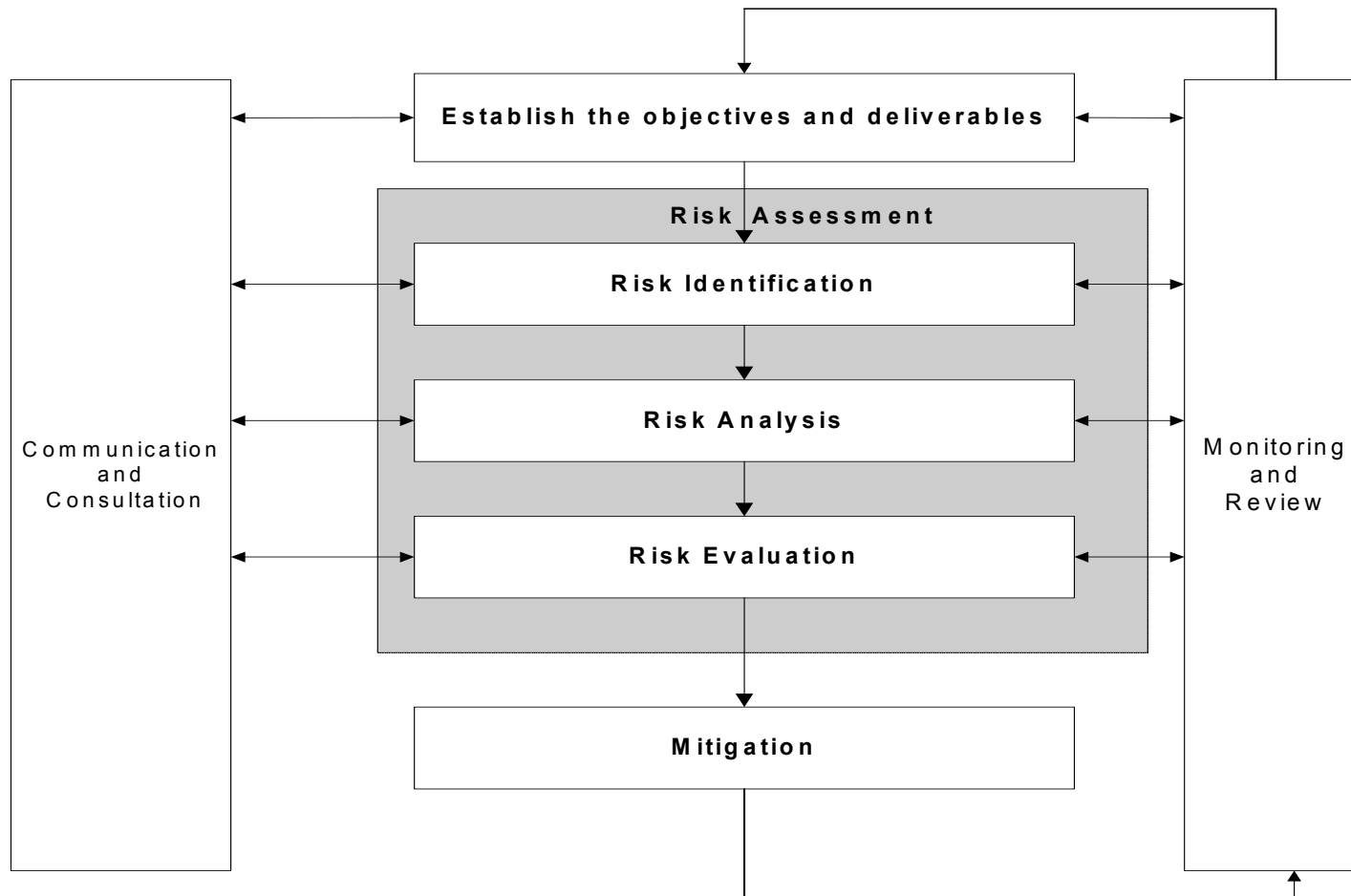
## Software & ERM - Yes its important!

- It provides transparency;
- It save time and cost;
- It standardises the methodology across the business;
- It can integrate the process (one tool for this part, this tool for the other and then reported on a disconnect excel sheet etc);
- It improves the visibility of the process;
- It can link related functions:
  - HSE reporting
  - Legal compliance
  - Risk Management
  - Assurance
  - Internal Audit

## No its not important!

- People think the software IS risk management!!!
- A lot of people aren't IT literate;
- Computers should NEVER replace human debate;
- Software could lead to templates and generic risks;
- Identifying risks needs to involve the team: software allows registers to be developed without human interface;
- It can be seen as 'big brother is watching you';
- People don't argue with computers: they tend to accept the outputs...
- It creates lags between the risks that are new / closed etc and when the tool is next updated

# RM Process (from the ISO Risk Management)



## Software & ERM – my opinions

- Yes, it is important: the business benefits (strategic, tactical and operational) out way the negatives...
- The negatives (like risks) can be managed...
  - People that struggle with software don't necessarily need to input the risks – admins can do this
  - Training can occur in hugely innovated ways (e-learning etc)
- The best form of risk management is through face-to-face communication or using webinars and audio conferences opposed to 'risks to approve via an email alert' – software shouldn't change this! – a change management programme may be required to stop this happening
- Every part of the RM process can benefit from software...
- A major risk to the RM Process is that there could be a disconnect between the risk reporting process and tools used to assess risks (QRA / NPV etc),
  - what is the consequence of missing / incorrect / 'lagged' data!?!

## Software & ERM – my opinions

- Software though, in my opinion, is the last part of the jigsaw... the priorities are:
  1. Get the culture right
  2. Get people trained on risk management
  3. Get the process correct (it can take a few attempts and evolutions)
  4. Get ownership in the functions / subsidiaries etc
  5. Once this has occurred, then choose the software (when you know exactly what you want) and train staff how to use it...
  6. Then you can say your ERM programme is working effectively and efficiently...

# RM Software Selection

Some lessons learnt when considering options

## RM Software selection process

- If you are choosing a software tool to use I would recommend the following approach:
  - 1. Do a user survey of what is ‘wanted’ and ‘needed’:
    - Split between ‘inputters’ (staff that input the data) and ‘outputters’ (risk managers and senior managers in the business)
  - 2. Speak to IT and get them on board early
    - What infrastructure does your company use (MS / Oracle etc)?
    - What is acceptable for them to manage or outsource?
  - 3. Read reports, use TIF and IRM websites etc
  - 4. Log onto potential vendors websites and look at the clients and strategy
    - Where is their offices / customer support, is their clients similar to yours?
  - 5. Do credit checks etc against them to ensure they are of a suitable size and secure enough
  - 6. Get them to present to your project team
  - Score them against a balanced scorecard
  - Pick 1 or 2 and do a ‘deep dive’ and trial in your office...

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