



Risk Management - Measuring the Benefits

Thursday 7 April 2011, PwC, Manchester

We all think there are many benefits from implementing effective risk management: fewer surprises, greater confidence in achieving objectives, enhanced reputation, reduced budgets, elimination of schedule overruns, and so on. However, it is often difficult to provide tangible and definitive examples which justify the effort and expense of systematic risk management.

And if we know and understand these tangible benefits, we should be able to sell risk management to stakeholders, such as a company board - something that is especially difficult in these austere times of cut backs.

The aim of this seminar was to look at real-life examples of the effectiveness of risk management and to consider how to capture this valuable information and share it in the future.

As ever we are very grateful to our speakers - four of them and a facilitator. They provide their services for nothing and often go to considerable trouble on behalf of our audiences. We owe them a great debt.

The meeting took place at PwC's offices and attracted 47 participants, who enjoyed the day and found it valuable, according to the feedback sheets. We are very grateful to PwC for making the room available and providing refreshments. Lunch was courtesy of the IRM. Our sponsors, too, make a terrific contribution to these events for our members, ensuring the success and survival of our North West IRM group.

Most of the presentation slides and workshop feedback are on the IRM website alongside this note, which provides a brief summary of the day's meeting (with the responsibility for any errors or misinterpretations being mine alone!).

First up was Steve Fowler, CEO of the IRM, who described the latest efforts in the Institute to grow the membership and to move to accreditation. He also noted the research work which is being undertaken at Copenhagen University (and supported by the IRM) looking at the differences between taking a strategic approach to risk management or just managing operational risk.

Following this, Steve White of PwC led an extended discussion workshop designed to elicit our views on key questions such as the benefits of comprehensive and visible risk management, the evidence that it is effective and how the evidence can be collated. This was achieved by considering different scenarios such as compliance matters, safety incidents, potential effects on reputation and industrial relations events. The discussion section of this session revealed an interesting range of views from the risk managers present on how to rate risks and identify the risk appetite. Unsurprisingly though, everyone agreed it was very important to do these things.



After lunch Rachel Kift of the National Audit Office described the work she had headed up looking at risk management practices in Government departments. The background was a fear that there is too much focus on process and a desire to measure how risk management had improved value for money. The emerging findings (the work is not finalised) included:

- inconsistent levels of leadership and engagement
- in spite of some islands of good practice, risk tolerance levels are generally not set
- a lack of integration of risk information and performance information
- absence of lesson learning processes.

The recommended response is likely to include enhanced department boards, a project risk culture, and enhanced accountability and transparency.

This was followed by Mike Florence who talked about his experience in AstraZeneca of bringing together integrated risk management with an embedding process to deliver measurable benefits. He illustrated this with two examples, one drawn from the supply chain - balancing the risks and opportunities of single supply sites, and the other covering R&D - using risk as a bridge to objectives and scorecards. This approach delivers benefits as long as the key ingredients are present: business ownership and alignment, a people culture with sharing, learning and collaboration, trust and debate, vision and courage, good judgement and perseverance.

Finally, Ruth Murray-Webster of Lucidus Consulting asked whether risk management could be regarded as something which provides a demonstrated return on investment or should be undertaken simply as an act of faith. Her view is that there are good measures of the benefits: elimination of waste, meeting promises and improved confidence and improved decision making. A seven-pronged attack is necessary to achieve these benefits: metrics, compliance, enthusiasm (but no evangelism), education, challenge (outcomes, not process), personal objectives and appropriate language (which emphasises uncertainty and the existence of ranges, not just single points). To sell to the Board you need to talk their language and address what matters to them.

At the end of all this I'm still unconvinced, meaning I incline to Ruth's act of faith stance. It's not surprising that a room full of risk managers think risk management is a Good Thing. But we are still hearing that the existence of things going wrong makes the case for risk management - with redoubled efforts. It's an argument that just doesn't stack up as our experience with lots of unthought through process shows. The basic problem is that the only circumstances in which you can reliably estimate the averted cost of risks which you've prevented happening is when you have reliable statistical information. And you (almost) never do.

However pulling together information of the kind discussed at the meeting to develop the case for comprehensive risk management would be a worthwhile exercise.

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