Prepared remarks

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Changing landscape

The historical approach is caricatured by use of the Statute and formal regulation to readdress market failure.

The recent past involves the exploration of alternatives to regulation, light-touch incentives, fiscal signals etc.

Current shifts involve wholesale/partial devolution of risk from the State to firms and citizens; a continuation of the de-, better-, or modern-regulation agenda of the 1990s.

Implications for government (at multiple levels), the firm, and for citizens.

“Regulation is essential to achieve the aims of public policy in many areas, and better regulation is not about unthinking removal of such regulation. Rather, it is about ensuring that regulation is only used when appropriate, and about ensuring that the regulation that is used is high quality. Improving the quality of regulation is a public good in itself, enhancing the credibility of the governance process and contributing to the welfare of citizens, business and other stakeholders alike. High quality regulation prevents the imposition of the unnecessary burdens on businesses, citizens and public administrations that cost them time and money. It helps avoid the damage to firms’ competitiveness that comes from increased costs and market distortions (particularly for small firms).”

How it’s changing
Transformation in government

• Risk sharing and apportionment (e.g. biosecurity on farms with respect to animal disease)
• Reduced public funds for managing residual risk (e.g. prioritising policy risk in the long term)
• Managing more risk, responsibly (opportunity management within the public sector; not recklessness)
• Beyond compliance and self-regulation (e.g. ‘nudge’, voluntary agreements and ‘earned recognition’)
• Localism (US/UK), devolved risk governance and enhanced risk management maturity
• The red-tape challenge agenda
How it’s changing
Transformation in the firm [...] 

• As above, and also:
  • Raised expectations of risk governance and Board oversight, Board behaviour (foreseeability complications), shareholder scrutiny
  • Evidence for corporate claims of responsibility
  • The rise of the chief risk officer/group risk manager
  • Environmental risks as mainstream
  • Networked / systemic risk remains poorly understood
  • ‘Outsourced’ risks re-categorised as a core threat
INCIDENT OCCURS
- inadequate training
- poor communication of importance of chlorine residual
- absence of near miss reporting
- rapid deterioration in raw water quality
- loss of chlorine residual
- operational procedures absent
- inadequate training
- poor communication of importance of chlorine residual

Latent flaws lie dormant - “if you don’t actively manage risk, it doesn’t go away, it just builds up”.

(after Reason, 2000)
How it’s changing (3)  
Risk and the citizenry

• New risks, new risk managers
• Making our own arrangements (e.g. flood risk management)
• Risk literacy and NGOs, and then
• Dealing with experts and expertise (advocacy and evidence)
• Local fora, participation
• Politicization of risk

An acceleration of an established agenda
One research response

Corporate risk governance

Risk specialization
- Senior Management and Board information needs evaluated;
- Preliminary risk profile developed;
- Policies established or refined;
- Standard terminology, techniques, documents established;
- Functional unit accountabilities clarified

Enterprise risk awareness
- Risk Profile refined (focus is on residual risks and tolerances);
- Regular reporting to Senior Management and Board of Directors established;
- Corporate risk assessment embedded in business planning process;
- Local risk owners identified; local risk management expertise identified; skills and knowledge transfer occurring

Risk management integration
- Corporate performance measures refined to recognize risk tolerances and priorities;
- Risk assessment and prioritization fully embedded in business planning;
- Risk profile interdependencies recognized;
- Local risk management processes fully active

Risk/mitigation optimization
- Clear ties between stakeholder value and risk management activities;
- Comprehensive risk portfolio created; new risk exposures identified early; appropriate priority and mitigation determined quickly;
- Risk management embedded all key business processes, including strategic planning;
- Local risk management processes fully aligned with Corporate objectives

Organisational value

6 months
- Senior Management and Board information needs evaluated;
- Preliminary risk profile developed;
- Policies established or refined;
- Standard terminology, techniques, documents established;
- Functional unit accountabilities clarified

12 months
- Risk Profile refined (focus is on residual risks and tolerances);
- Regular reporting to Senior Management and Board of Directors established;
- Corporate risk assessment embedded in business planning process;
- Local risk owners identified; local risk management expertise identified; skills and knowledge transfer occurring

18-24 months
- Corporate performance measures refined to recognize risk tolerances and priorities;
- Risk assessment and prioritization fully embedded in business planning;
- Risk profile interdependencies recognized;
- Local risk management processes fully active

24-48 months
- Clear ties between stakeholder value and risk management activities;
- Comprehensive risk portfolio created; new risk exposures identified early; appropriate priority and mitigation determined quickly;
- Risk management embedded all key business processes, including strategic planning;
- Local risk management processes fully aligned with Corporate objectives

Process sophistication

(after Fraser, 2005)
Some remarks for ‘Deputy heads’ of policy

• Good risk governance creates value, not just reduces business loss, because it builds confidence.

• Use risk registers as basis for discourse on risk appetite, accountability, as a check on strategies for managing residual risk, as a basis for policy alignment, and for ‘golden threads’ of evidence.

• Expect to compromise as you aggregate risks at the policy level – there are pragmatic, defensible tools.

• Risks and futures go together – robustness of techniques plus creative, long term perspectives.

• You will be managing more risk – train and empower your people.

• Get a trusted risk champion and use them.