

PUBLIC RISK FORUM

MAGAZINE FOR PUBLIC RISK MANAGEMENT

MAY 2007

Risk Management: It's Not Rocket Science — It's Much More Complicated

Managing High-Risk Outsourcing
Multi-Lateral Organisations
and Risk Management
Strategic Risk Management

PUBLIC RISK FORUM

May 2007

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In the May 2007 Issue of Public Risk Forum readers will find:

- Managing High-Risk Outsourcing provides an analysis of the costs and benefits (and risks) associated with outsourcing practices. Readers will see a framework for analyzing outsourcing risk and for better understanding the tools available for managing those risks.
- John Adams, one of the world's foremost authorities on risk offers an essay on the specific challenges of understanding risk perception and its influence on management decisions and provides particular insights on dealing with risks where our understanding is inconclusive...a common challenge for public sector managers.
- Jules Muis identifies and discusses the particular characteristics and challenges of risk management in multi-lateral organizations. He argues that the complexity of risk management in organizations like the UN or the EU creates a need for risk managers to be politically and organizationally astute, and to recognize the influence of culture on the success of any risk management initiative.
- A range of reports, commentaries, and national updates from PRIMO Europe, Denmark, the US, the UK, Japan, and Australia identifying trends in the advance of public sector risk management.
- Professor Torben Andersen of Copenhagen Business School provides a detailed examination of the changing nature of risk management and the specific role that is emerging for executives, elected officials and other top managers in integrating risk management into overall management practices.
- News, announcements of coming events and new publications, as well as guidance on finding recently released studies, reports and research.
- Malene Mouritze Marfelt explains the history and present activities of the European Institute for Risk Management (EIRM).

Readers interested in more information about EIRM are encouraged to contact the institute at firm@eirm.net. Individuals or organizations wishing to submit or propose articles for PRF are encouraged to contact Peter C. Young at pcyo@eirm.net.

From the Editor's Desk

By Dr. Peter C. Young, Managing Editor of Public Risk Forum



Welcome to the third issue of Public Risk Forum. We are pleased that the first two issues were very well-received and that interest in joining the network has grown rapidly. Notably, we expect that this issue of PRF ultimately will reach over 70,000 public sector managers throughout the world. Additionally, we have strengthened important correspondent relationships with Australia, the United States and with Japan. Further, for the first time PRF also will appear in a hard-copy format and will be distributed at the PRIMA annual conference in Boston and the ALARM annual conference in Cardiff. We expected PRF to fill a need in the public risk management world, but I will be honest... we did not expect that interest would be so enthusiastic.

Public Risk Forum aspires to provide a global forum for public sector risk management – a goal that makes PRF unique among all public risk management publications. This newsletter specifically intends to foster interactions among risk management practitioners and experts throughout the world and to do so in a way that allows readers to gain new perspectives on risk management challenges and strategies. International exchanges have occurred in the past, but we hope to radically expand the dialog over a short period of time. We also see great benefit in enabling readers to interact directly with these leaders in the field, and PRF will introduce features that will encourage this to occur.

Greater global interaction is an important aspiration, but it is not PRF's sole objective. All other public risk management publications and information sources focus on technical aspects of risk management and tend to be produced for those important individuals we call risk managers. This is a noble cause and we view these individuals as part of our readership. However (and this is an important "however"), PRF seeks to expand the readership to include public sector executives. One of the most important changes in modern risk management is the explicit role that top managers now play in setting risk management policy, in integrating risk management practices into their own jobs, and in assuring stakeholders that desired outcomes are obtained. Thus, our forum not only invites global voices and perspectives, it also welcomes both risk managers and executives into the discussion.

Perhaps there is a third objective – one that arises from the second. We hope that PRF can reach both audiences (practicing risk managers and public executives) but we also hope that the newsletter might, directly or indirectly, encourage dialog between risk managers and executives and thus open the way for a fruitful integration of risk management into the general structure of management practices in public organizations. PRF will have features that encourage this specific kind of exchange.

In this issue, readers will note evidence of all three objectives. Inside you will find:

- An insightful article by Jack Kruf that illuminates the chief executive's expectations for risk management practices.
- A stimulating interview with Jules Muis, who offers a glimpse into the world of risk management in multinational governmental organizations
- Claire Reiss of the Public Entity Risk Institute reporting on activities geared toward integrative community-wide risk management.
- Our national correspondents reporting on current developments within their respective countries.
- Professor Torben Juul Andersen offering some very pragmatic views on the intersection of risk management with strategic management.
- The European Institute for Risk Management reporting on a range of activities that are fulfilling its forum-building objective.
- And, as always – much, much more.

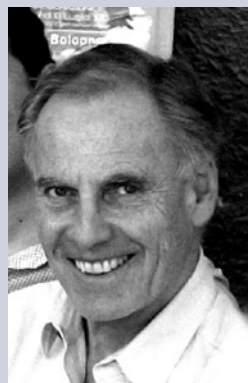
We at PRF are energized by the rapid acceptance of our publication, and we are hopeful that PRF will become an important source of information for readers with an interest in public sector risk management. As I mentioned in the first issue, I want to encourage readers to provide direct comments, suggestions and corrections, and – when appropriate – to submit any news or information deemed important to share with the readership. Please feel free to contact me any time at pcyo@eirm.net.

Welcome to the Public Risk Forum.

Managing High-Risk Outsourcing

By Emanuele Padovani, Ph.D., associate professor of management control systems in public sector organizations, University of Bologna Forlì Campus, Department of Management, Italy.

David W. Young, D.B.A., full professor of management, emeritus, Boston University School of Management, Boston, USA.



Outsourcing is a strategy used by local governments in an effort to provide high-quality public services at a low cost. The underlying idea is that a locality can take advantage of a vendor's considerable experience and economies of scale. The result will be comparable or better-quality services than provided by the locality itself, at a reduced cost to taxpayers, while still allowing the vendor to earn a reasonable profit.

During the past three decades, local governments in both the United States and abroad have undertaken disparate outsourcing activities such as animal control, legal services, fire protection, trash collection, health care, snow plowing, building maintenance, bill collection, data processing, street cleaning, street repair, and recycling. Unfortunately, outsourcing has not always achieved the dual goals of high quality and reduced cost. In part, this is because of poor vendor management by localities.

The way a locality must manage its vendors depends on the risk associated with the outsourced activity. The purpose of this article is to present two frameworks that can assist local governments in outsourcing. The first framework is designed to assess the nature of the risk of a potentially outsourced activity. The second, on which we place most of our emphasis, comprises techniques that can be used to manage the vendor of a high-risk, outsourced activity.

In this regard, it is important to note that many communities tend to avoid high-risk outsourcing. Yet, just because an activity is high-risk it is not a good reason to avoid it; rather, it must be managed differently from a low-risk outsourced activity if it is to achieve cost-effective results for the citizenry.

**“...just because an activity is high-risk,
it is not a good reason to avoid it...”**

Framework 1. Assessing Outsourcing Risk

The nature of risk in a potentially outsourced activity can be viewed from three perspectives: citizen sensitivity, the supplier market, and the costs of switching.

Citizen sensitivity. From the citizens' perspective, a city's sanitation service clearly is much more important than, say, its publications department. Citizens are extremely concerned about the timely removal of waste and only minimally concerned about printing quality. In large part, this is because they are the final clients, so that, for the local government, the risk of nonperformance is much higher. As a result, any external outsourcing decision must weigh the impact of poor performance or nonperformance on residents.

Supplier market. Competitiveness in the supplier market can range from many potential suppliers (high competition) to few, or perhaps only one, potential supplier. For example, there usually are many printing companies competing for a community's publication business, but there may be few vendors offering sanitation services or nursery schools. With only a few potential vendors, the community's ability to negotiate on price and features is low.

Switching costs. Occasionally, outsourced activities are carried out using some highly unusual resources that cannot be transferred easily from one vendor to another. When this happens, a community will have difficulty, and no doubt incur substantial costs, in replacing an existing vendor. Finding a new vendor for, say, a sanitation service or nursery school could be difficult because of a variety of investments that must be replicated if a new vendor is selected. In a nursery school, teachers have learned about the children's needs, established relationships with parents, and so forth. In instances like this one, the switching costs are high.

From the vendor's perspective, the cost of losing a contract can be great. For many high-risk outsourced activities, the vendor has purchased expensive equipment and incurred training and other start-up costs to carry out the contract. For this reason, if problems arise some managers will give the vendor time to improve;

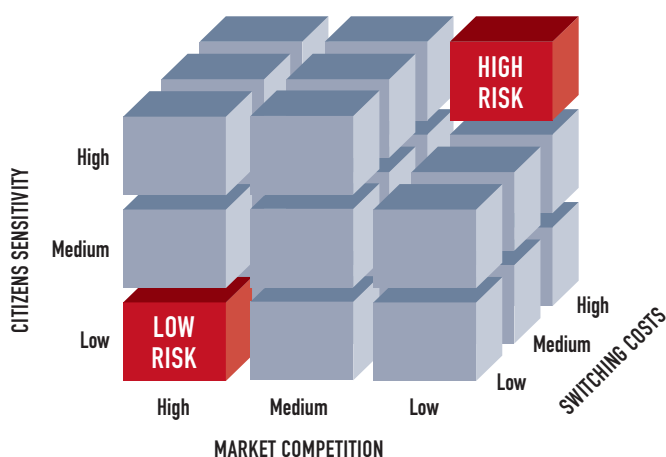
other managers may be unconcerned with the vendor's one-time costs and decide to use a new vendor before the situation worsens. Much depends on the terms of the contract and the nature of the relationship between the local government and the vendor. In contrast, if a service like snow removal is outsourced, the locality's switching costs are likely low, as are the vendor's start-up costs. If one vendor does not perform according to the contract, the locality usually has little difficulty in replacing that vendor. Indeed, the city or county may have contracts with several other providers as well, to protect it from any sort of "vendor holdup."

The three dimensions of risk assessment are illustrated in Figure 1. As indicated, the low-risk cube embodies services such as a publication department, with a combination of low citizen sensitivity, high market competition, and low switching costs—a situation with a high probability of successful outsourcing and without the need for careful vendor management. A service like snow removal might fall into the upper-left, front corner, where citizen sensitivity is high but where a poorly performing vendor can be replaced easily and quickly.

At the other end of the spectrum (high citizen sensitivity/low competition/high switching costs) are services for which outsourcing poses a high risk. An example was seen some years ago when the commonwealth of Massachusetts outsourced its Medicaid Management Information System, which mailed several hundred thousand checks each month to indigent citizens. Citizen sensitivity was high, and there were almost no vendors, other than the one chosen, having computer systems of sufficient size and sophistication to undertake the various activities needed (only one of which was sending out checks).

Moreover, because of the need to transfer software (or rewrite code, in some instances), plus the difficulty of moving data files from one vendor to another and performing needed audits, the switching costs were high. When the vendor went bankrupt, Massachusetts and several hundred thousand Medicaid recipients learned, quite painfully, the true meaning of high-risk outsourcing.

Figure 1. The Three Dimensions of Risk Assessment



“...Massachusetts and several hundred thousand Medicaid recipients learned, quite painfully, the true meaning of high-risk outsourcing”

Framework 2. Managing High-Risk Outsourcing

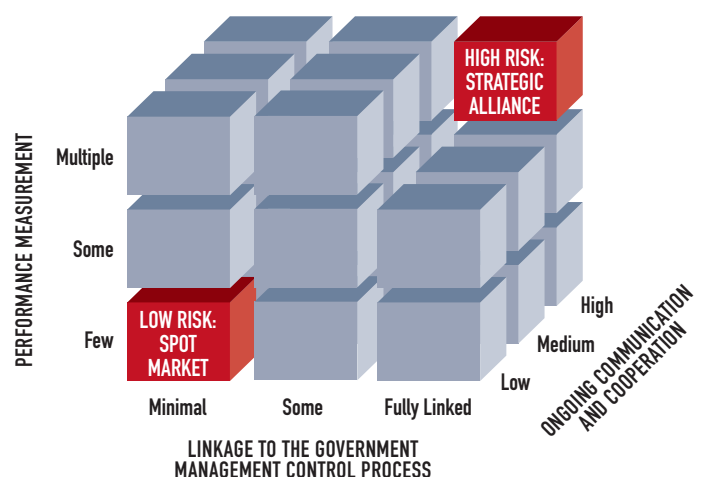
Even though an outsourced service may fall into the high-risk area of Figure 1, it still may have considerable potential for improving the cost-effectiveness of public services. To achieve this potential, the local government must manage the vendor carefully. In some cases, vendors, while abiding by the “letter” of a contract, may make reductions in quality and features in an attempt to save costs. Or they may not be responsive to citizen concerns. Or they may attempt to raise switching costs to make it difficult for the local government to consider competitors at the time of contract renegotiation.

To address these sorts of problems, a city or county must focus on three distinct activities: performance measurement, ongoing communication and coordination, and links to the management control process. As Figure 2 shows, a high-risk outsourcing contract requires multiple performance measures; a high level of ongoing communication and cooperation to fill the gaps that are inevitable in any high-risk contract; and a full linkage with the management control system, including process measures concerning the contract manager's activities.

Performance Measurement

With high-risk outsourcing, contract monitoring must involve a variety of activities to ensure not only service effectiveness, but also responsiveness of the vendor to citizen needs and problems. These activities must include taking steps to ensure that problems are resolved quickly. In effect, a local government must shift from

Figure 2. The Three Key Activities in Managing High-Risk Outsourced Services



traditional regulatory contracting (whereby it specifies inputs, or processes, in detail) to performance contracting (whereby it simply states the outputs wanted and allows the vendor to determine the appropriate mix and quantity of inputs). Thus, the community is no longer concerned with processes, or their measures, but with the vendor's ability to achieve the agreed-upon results at a lower cost than if it had undertaken the activity itself.

To illustrate, consider a decision by the department of public safety to outsource traffic-light maintenance. The department is unconcerned with how often the vendor inspects each plant or the efficiency of the vendor's employees in conducting the inspections—both of which are process measures. Instead, the department focuses on such results measures as the percentage of operating traffic lights or the amount of time needed to restore a broken light. In effect, the department is purchasing functioning traffic lights, not inspections.

Clearly, not all types of results measures can be included in a contract. Many qualitative aspects, such as cleanliness in a street-cleaning contract or the effectiveness of an outsourced social service, can be measured by subjective evaluation only. Sometimes, surrogate measures of vendor performance can be used, like citizen complaints, length of assistance period, and so forth.

Finally, unless the community is careful, a vendor may develop a rigid focus on the results measures specified in the contract, rather than on creative thinking about how the service might be improved at no or minimal additional cost. To avoid this sort of focus, community staff must engage in ongoing communication and coordination with the vendors.

Ongoing Communication and Coordination

One characteristic of many high-risk outsourcing arrangements is that the contract cannot define all future contingencies, especially when the task to be completed is complex and evolving. Here, the relationship between the community and the vendor must be tightly linked, ideally characterized by mutual trust, altruism, cooperation, and a close working relationship. The range of possibilities is shown in Figure 3.

prior experience that the quality would be acceptable and the delivery made on time. Alternatively, the community might have some short-term contracts with several local printing companies to meet needs like this one. If one company were unavailable, a request to another could be made.

Another possibility is a long-term contract with a single printing company, with the idea that the company would be the sole provider of printing needs. This sort of contract might evolve into a strategic alliance if the locality had some uncertain printing needs for which the vendor agreed to provide service as demanded without knowing in advance exactly what requests it would receive. The contract might be a loosely worded one, calling for, say, quarterly discussions and a settling-up of balances due. Going even further, a joint venture might take place in which the company becomes a partner with the community and perhaps is guaranteed a certain percentage profit each year. Finally, vertical integration would exist if the community obtained all of its printing needs from an in-house department with no reliance on outside vendors. In effect, vertical integration returns the service to in-house provision.

More generally, with high-risk outsourcing, a shift to the right in Figure 3 (or to the rear in Figure 2) is essential to assure citizen satisfaction. While routine problems can be solved by daily contacts (phone calls, e-mails, and so on), structural problems (ones that are, or could become, repetitive) require a working relationship characterized by a high level of communication and coordination. In effect, with high-risk outsourcing, the working relationship between the community and its vendor is at least as important as the specific terms of the contract, perhaps more important.

Links to the Management Control Process

Outsourcing a service does not mean excluding it from a community's ongoing process of programming, budgeting, reporting, and evaluating. Changes in its strategy, for example, may mean that a vendor—as an integral part of the community—needs to consider new or different programmatic activities, such as a program to pick up recyclable waste or one to synchronize traffic lights along a major artery.

Figure 3. Range of Possible Contractual Relationships



To illustrate, consider the outsourcing of some printing needs of a publications department. In a "spot market" relationship, a locality would make a one-time purchase of, say, 5,000 copies of a brochure about a youth program. It would call several local printing companies for bids and choose the lowest one, knowing from

Similarly, if new programmatic activities will begin in the upcoming year, the budgeting phase of the management control process must incorporate a revised vendor budget; otherwise, the community's budget will be unrealistic.

Perhaps most important, the various results measures for the outsourced services need to be an integral part of the reporting phase of the management control process, as does information concerning the department charged with managing the vendor. For this reason, the reporting phase focuses on both the results being produced by the vendor and the monitoring activities of the internal department. Otherwise, senior management may learn too late of emerging problems.

Finally, recognizing that outsourcing is a matter of trade-off choices, and that the environment in which these choices are made is constantly evolving, a local government needs to evaluate the outsourced service periodically. In part, this is because results measures may fail to capture some of the more subjective elements of citizen satisfaction. Also, however, for any number of reasons, an outsourced activity may have moved from one cube in Figure 1 to another, which may call for a change in the outsourcing strategy.

Similarly, technology may have changed, such that it would be more beneficial to return from outsourcing to in-house service provision. Alternatively, it is possible that another vendor, working in another city or county, has developed some considerable expertise in the outsourced activity, such that a change in vendors would improve the quality of the service, lower its cost, or both.

In general, these sorts of problems and opportunities will not become apparent during day-to-day operations or even during the budgeting phase of the management control process. Ordinarily, only a thorough program evaluation can identify new opportunities or as-yet-unseen problems.

In short, when a community engages in high-risk outsourcing (the upper-left, rear corner of Figure 1) and wishes to assure its citizens that the savings realized from the outsourced activity are not matched by a reduction in service quality and features, it must develop an appropriate set of outsourcing-management activities. Given that a considerable number of outsourcing arrangements are of a high-risk nature, a focus on these activities is essential for those localities that wish to assure their citizens of effective services at a reasonable cost.

Callouts:

With high-risk outsourcing, contract monitoring must involve a variety of activities to ensure not only service effectiveness, but also responsiveness of the vendor to citizen needs and problems.

With high-risk outsourcing, the working relationship between the community and its vendor is at least as important as the specific terms of the contract, perhaps more important.

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Risk Management: It's Not Rocket Science – It's Much More Complicated

By John Adams, Emeritus professor of geography at University College London



In popular imagination, rocket science is the totemic example of scientific complexity. I will argue here that risk management is in fact much more complex. To put it another way, the scientist studying turbulence “the clouds do not react to what the weatherman or physicist says about them”. The risk manager must, however, deal not only with risk perceived through science, but also with virtual risk - risks where the science is inconclusive and people are thus “liberated to argue from, and act upon, pre-established beliefs, convictions, prejudices and superstitions.”

The affluent world is drowning in risk assessments. Almost everyone now has a “duty of care” to identify formally all possible risks to themselves, or that they might impose on others, and to demonstrate that they have taken all reasonable steps to “control” them. It is not clear that those imposing this duty of care appreciate the magnitude and difficulty of the task they have set.

In 2004 I participated in a conference on terrorism, World Federation of Scientists’ International Seminar on Terrorism, Erice, Sicily. Most of the other participants were eminent scientists, and I found myself in a workshop entitled *Cross-disciplinary challenges to the quantification of risk*.

Lord Kelvin famously said:

Anything that exists, exists in some quantity and can therefore be measured.

This dictum sits challengingly alongside that of another famous scientist, Peter Medewar who observed:

If politics is the art of the possible, research is the art of the soluble. Both are immensely practical minded affairs. Good scientists study the most important problems they think they can solve [my emphasis]. It is, after all, their professional business to solve problems, not merely to grapple with them.

Terrorism undoubtedly exists, and some of its consequences can be quantified. One can count the numbers killed and injured. With the

help of insurance companies one can have a stab at the monetary value of property destroyed and, for those with business continuity insurance, the value of business lost. But what units of measurement might be invoked to calculate the impact of the terror that pervades and distorts the daily life of someone living in Chechnya, or Palestine, or Darfur or ? Or the loss of civil liberties resulting from the anti-terrorism measures now being imposed around the world.

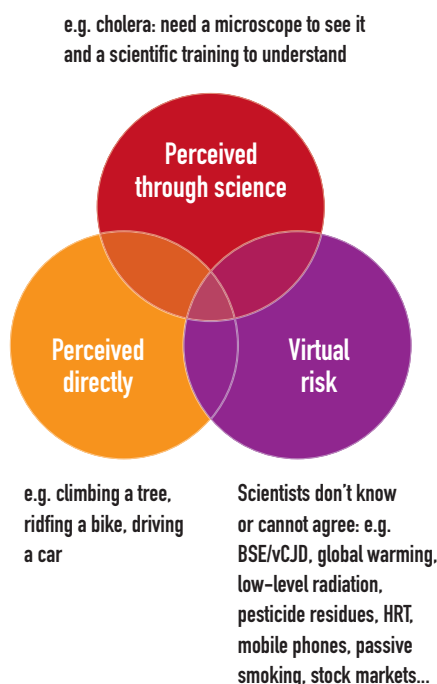
The problem becomes more difficult when one moves on to the challenge of quantifying the *risk* of terrorism. Risk is a word that refers to the future. It has no objective existence. The future exists only in the imagination. There are some risks for which science can provide useful guidance to the imagination. The risk that the sun will not rise tomorrow can be assigned a very low probability by science. And actuarial science can estimate with a high degree of confidence that the number of people killed in road accidents in Britain next year will be 3500, plus or minus a hundred or so. But these are predictions, not facts. Such predictions rest on assumptions; that tomorrow will be like yesterday; that next year will be like last year; that future events can be foretold by reading the runes of the past. Sadly, the history of prediction contains many failures – from those of stock market tipsters to those of volcanologists seeking to predict eruptions, earthquakes and tsunamis.

Type “risk” into an Internet search engine and you will get over 100 million hits. You need sample only a small fraction to discover many unnecessary, and often acrimonious, arguments. Risk is a word that means different things to different people. It is a word that engenders a sense of urgency because it alludes to the prob-

ability of adverse, sometimes catastrophic, outcomes. Much of the acrimonious urgency, or the urgent acrimony, that one uncovers searching for “risk” on Google, stems from a lack of agreement about the meaning of the word. People are using the same word, to refer to different things, and shouting past each other.

Figure 1 is proffered in the hope of clearing away some unnecessary arguments.

Figure 1



Directly perceptible risks are dealt with using *judgement* – a combination of instinct intuition and experience. One does not undertake a formal, probabilistic, risk assessment before crossing the road. Crossing the road in the presence of traffic involves prediction based on judgement. One must judge vehicle speeds, the gaps in traffic, one's walking speed, and hope one gets it right, as most of us do most of the time.

Most of the published literature on risk management falls into the category of *risk perceived through science*. Here one finds not only biological scientists in lab coats peering through microscopes, but physicists, chemists, engineers, doctors, statisticians, actuaries, epidemiologists and numerous other categories of scientist who have helped us to see risks that are invisible to the naked eye. Collectively they have improved enormously our ability to manage risk – as evidenced by the huge increase in average life spans that has coincided with the rise of science and technology.

But where the science is inconclusive we are thrown back on *judgement*. We are in the realm of virtual risk. These risks are culturally constructed – when the science is inconclusive people are liberated to argue from, and act upon, pre-established beliefs, convictions, prejudices and superstitions. Such risks may or may not be real but they have real consequences. In the presence of virtual risk what

we believe depends on whom we believe, and whom we believe depends on whom we trust.

A participant at the conference on terrorism was one of the world's foremost experts on turbulence, notoriously the most intractable problem in science. In the mythology of physics Werner Heisenberg is reported as saying:

When I meet God, I am going to ask him two questions: Why relativity? And why turbulence? I really believe he will have an answer for the first.

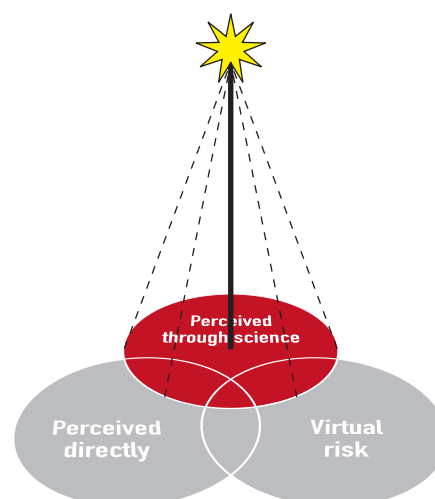
I would trust the physicist I met at the conference to tell me the truth about turbulence, so far as he knew it. But the problems he is studying are simple compared to those of the risk manager, because the clouds do not react to what the weatherman or physicist says about them.

We are all risk managers. Whether buying a house, crossing the road, or considering whether or not to have our child vaccinated, our decisions will be influenced by our judgement about the behaviour of others, and theirs by their judgements about what we might do. The world of the risk manager is infinitely reflexive. In seeking to manage the risks in our lives we are confronted by a form of turbulence unknown to natural science, in which every particle is trying to second guess the behaviour of every other. Will the vendor accept less in a falling market? Will the approaching car yield the right of way? Will enough other parents opt for vaccination so that my child can enjoy the benefits of herd immunity while avoiding the risks of vaccination? And, increasingly, if things go wrong, who might sue me? Or whom can I sue? The risk manager is dealing with particles with attitude.

Another participant at the conference, alert to the strict limits of natural science in the face of such turbulence, warned that we were in danger of becoming the drunk looking for his keys, not in the dark where he dropped them, but under the lamp post where there was light by which to see.

This caution prompted the re-drawing of Figure 1. Figure 2 is an attempt to highlight the strict limits to the ability of science to foretell the future.

Figure 2



In the area lit by the lamp of science one finds risk management problems that are potentially soluble by science. Such problems are capable of clear definition relating cause to effect and characterized by identifiable statistical regularities. On the margins of this area one finds problems framed as hypotheses and methods of reasoning, such as Bayesian statistics, which guide the collection and analysis of further evidence. As the light grows dimmer the ratio of speculation to evidence increases. In the outer darkness lurk unknown unknowns. Here lie problems with which, to use Medawar's word, we are destined to "grapple".

As the light of science has burned brighter most of the world has become healthier and wealthier and two significant changes have occurred in the way in which we grapple with risk. We have become increasingly worried about more trivial risks, and the legal and regulatory environments in which we all must operate as individual risk managers have become more turbulent. As the likelihood of physical harm has decreased the fear, and sometimes the likelihood, of being sued has increased.

"As the likelihood of physical harm has decreased the fear, and sometimes the likelihood, of being sued has increased"

Perhaps the clearest demonstration of this can be found in the increase in the premiums that doctors must pay for insurance, and the way this varies according to the type of medicine practiced. *The Medical Protection Society of Ireland* has four categories of risk: low, medium, high and obstetricians. Between 1991 and 2000 the premium charged to those in the low category increased by 360 percent to €9854, and that charged to obstetricians increased by 560 percent to €54567.

Measured in terms of its impact on peri-natal mortality rates, obstetrics and gynecology can claim a major share of the credit for the huge increases in average life expectancy over the last 150 years. This most successful medical discipline is now the most sued – so successful that almost every unsuccessful outcome now becomes a litigious opportunity. I don't know of any risk assessment that predicted that.

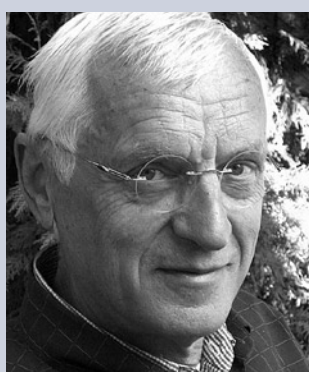
There is a distinction, frequently insisted upon in the literature on risk management, between "hazard" and "risk". A hazard is defined as something that could lead to harm, and a risk as the product of the probability of that harm and its magnitude; risk in this literature is hazard with numbers attached. So, relating this terminology to Figures 1 and 2, it can be seen that risk can be placed in the circle "perceived through science" while the other two circles represent different types of hazard.

Typing "hazard management" into Google at the time of writing yielded 70,000 hits; "risk management" 12 million. The number of potential harms in life to which useful numbers can be attached is tiny compared to the number through which we must navigate using unquantified judgement. The Kelvinist, rocket-science approach to virtual risks, with its emphasis on the quantitatively soluble, threatens to divert attention from larger, more complicated, more urgent problems with which we ought to be grappling.

John Adams is author of the highly influential book 'Risk' published by University College London, 1995. For more information, go to John Adams' website: www.john-adams.co.uk

Multi-Lateral Organisations and Risk Management

An interview with Jules Muis, Former VO & Controller of the World Bank and former Director-General and Chief Internal Auditor of the European Commission



“Public sector risk management” is a phrase that covers a lot of ground: from activities undertaken by a local community to safeguard schools, to broad health policy challenges facing large multi-national organizations like the United Nations. PRF wanted to provide readers with some insights into the nature of risk management in large multi-lateral organisations, and we were very lucky to be able to sit down with Mr. Jules Muis, and to ask him a few questions about multi-lateral organisation risk management.

PRF: When looking at the ballooning interest in public sector risk management at the national and local government levels, we see a real hunger for information: for example, information on cross-national comparisons on principles and practices. But, this gives rise to a question about multi-national public organisations themselves. What interest is there within multi-laterals on the subject of RM? And, particularly, is the EU involved in risk management activities as such?

JM: Most multi-laterals, the UN, the World Bank, and the Regional Development Banks have, piecemeal and predominantly bottom up, gratefully capitalized to one degree or another on the risk management insights and toolkits developed in the private sector; realizing full well that the public sector has the extra complication in performance indicators by lacking a clear bottom line. The impetus for this development has initially come from enthusiastic professionals, in particular controllers and auditors, cross-selling risk management tools, and adapting them to the specifics of their situation, where possible. That was the easy part, in my judgment. Fiduciary crises and scandals haunting many multi-laterals (they are not particularly well known for their good housekeeping hygiene) have triggered further interest in institu-

tion-wide risk management practices and models. The EU has been no exception to this. In 2006, the European Commission issued a promising policy paper on the subject, which introduced risk management practices and assessments at Directorate-General level. The results of the exercise are expected to be embedded in their annual management assurance statements. At the same time, the European Parliament courageously ventured - through its Budget Controls Committee - to sponsor a first special seminar on the subject of its own ‘risk appetite’. To my way of thinking, this is the raw nerve of any risk management policy and, politically, the most under-discussed, vulnerable RM topic in particular in a multi-lateral setting. I think this was a unique initiative for a political body; with no doubt, more to come.

PRF: How come? What is so special about multi-laterals?

JM: First, there is the distinct organizing principle, or governance architecture if you wish, of multi-laterals, closely resembling that of a classical co-operative, with suppliers being customers, being shareholders, being net takers or net contributors, all at the same time. We could call this “the inmates running the asylum” to use a

“...the European Parliament courageously ventured – through its Budget Controls Committee – to sponsor a first special seminar on the subject of its own ‘risk appetite’. To my way of thinking, this is the raw nerve of any risk management policy and, politically, the most under-discussed...”

colloquillism. This can lead, too often, to the populist suspicion of these institutions predominantly running around in circles; with professed “institutional interest in all we do” as its only countervailing power. This is a credo often seen by its critics as a benign joke; national interests or “might makes right” continuing to play a key role in much that is done at most multi-laterals.

Second, there is the inevitable self-serving power, according to too many, of the professional workforce (the bureaucracy so to speak) developing their own coded language and ‘housetraining’ its employees in the do’s and don’ts so as to build its own power-base. And indeed, knowing the ropes of an organization gives one a competitive edge, but I do not think bureaucracies are single minded self-serving first. In my own experience, I found a lot of well-intended change agents in their midst.

Third, there is the multi-cultural dimension calling for due caution in all one says and the way one says it, leading to what I once coined “the politeness conspiracy”. In its extreme form it degenerates into a situation where surfing the waves becomes the rule and causing waves the exception, assuredly promising a very short career life expectancy to those who dare the latter; but there are also those who do make a difference when the opportunity is there, call it the Gorbachev effect. Blend that with multi-laterals incipient macro change management challenges effecting vested interests as a prime business mandate; lubricated by institutional money (lots of it), with long downstream supply lines and many pumping stations; and a spaghetti of rules and processes to legitimize it all. Spice that mix with the intricacies of institutionalized politicization and you’ll find institutions with, a) definitely, a mind of their own- albeit schizophrenic at times- and b) possibly, on occasions, a serious case of heartburn; but c) for most part born without a soul – yet, in their defense – working on the challenges, depending – as always – on the quality of its leadership.

There is at present no risk management model I know of that is able to capture it all. Hence we start from a blank sheet, top-down that is, which has its advantages. But we are still missing a base pre-condition: the will, also at the very top, to make it all work, top down, bottom up and horizontally; organically so to speak. What we have now is a system that is still very compartmentalized, stove-piped, piecemeal, and stopping well-short of pulling it all together. To be fair, this situation is still far better than in many countries I know. The time to move on from frontloading methodologies at the subsidiary level towards dealing with the heavy lifting at the top levels is rapidly approaching.

PRF: Why would that be?

JM: Introducing formalized risk management implies introducing accountability constructs that will challenge the status quo, reduce the traditional wiggle room in talking oneself out of a problem, which has not been part and parcel of the comfort zone of many professional, and in particular political, managers at the top. Although more and more are discovering the protection risk management offers to get political buy in- up front- for risk profiles of public sector projects. Risk management mortgages the

wiggle room of political masters who, for the most part, have a fine eye for that downside – and in my view this is not conducive to a healthy political appetite for risk management; lest implementation can be deferred for the benefit of their successors. Risk management will challenge the present ease in which policy makers can window-dress the true risk profile of their proposed ventures, which in the public sector are by definition medium-to-high. In short, the incentive system at the top, by design, simply is not always there.

“Introducing formalized risk management implies introducing accountability constructs that will challenge the status quo . . .”

Hence risk management’s ultimately inevitable introduction at the top will come either by default; or very gradually by a discovery process that risk management is an organic process and that, once started, even if only bottom up, it cannot just be stopped from the neck up. So to me the question is not whether but when and how. There is still an enormous amount of groundwork to be done on that now; and it’s expectation management; but it better be done sooner rather than later or we fall back to the default option; or a perpetual state of benign and sometimes not so benign state of unaccountability.

PRF: Any predictions for the future?

JM: Let me turn that question, in a sense, to you, the European Institute for Risk Management, because your efforts to create a global community underscore both a key opportunity and threat. With the present success of the EIRM, I see some danger that it will try to run before it can walk. The worldwide interest in its concepts and toolkits is fantastic, and will cause a hunger for seeing results that allow for the cross-cultural comparative purposes, and for charting cross-national differences in defining ‘success’. For one country that could be a totally process driven assessment, others would just like to look at outcome, results. After which the next question comes: and who are the winners? Much hinges on the different concepts and appreciation of the effective power constructs in the different countries; and the performance indicators applicable. But we do not need perfect comparative analyses on a country by country basis to tackle and make major advances on the multi-lateral front. That can be done by building on the present good work being done at the national level, adjusted for the specific features of multi-laterals, in combination with the good work being done by these multi-laterals themselves; and vice versa. In other words, there is a need for a universal conversation on public risk management, but in practice risk management will be quite different from country to country.

None of this will come easy, in that risk management will soon be discovered not only as a sensible tool of management but also for

its unnerving accountability features. And once the rules of the game have been established - also in risk management- the game of the rules will start. It would be foolish to think otherwise.

The roll out of risk management at the multi-lateral level will come by osmosis; not by revolution. But we can help speed up this slow-motion process by transparency, transparency, transparency, peer pressure, and actively stimulating political awareness of its potential and dangers. Shock therapy might also work on occasions: Ask a politician whether (s)he'd risk a leakage percentage in development aid of 25-35%, and they go for the exits. Yet, that what we have been doing for decades; and we will continue to do, moving forward, all other things remaining equal. Most of this is worth the risk in my personal assessment, but not for the manageable part; much of which remains unexplored, lest we go for professional risk management.

PRF: How would you define risk management's vulnerabilities in a multi-lateral setting?

JM: There is always potential for risk management to be misused as a fig leaf for decision makers in order to buy political time, and flaunting state of the art management practices without wanting to deal seriously with the political consequences. I also see some danger from the of lack of expectation management about the limits of risk management in a politicized, circuitous governance setting. Risk management often is a rubber bullet, not a silver bullet. Finally, there are dangers of risk management degenerating into a basic process driven exercise, declaring victory when the last box has been ticked.

"I think risk management can be a major driver to achieve harmonization, standardization and upgrading of general management standards and practices"

PRF: And risk management's potential?

JM: Well, it is definitely a strong tool of management and accountability, whatever its imperfections; but never a substitute for gumption; that is, to say it the way one sees it and to act. I think risk management can be a major driver to achieve harmonization, standardization and upgrading of general management standards and practices. And, it can be a major driver for taking the myth out of the true risk profiles of multi-laterals in virtually all they do; their convoluted governance structures; exposing, smoking out, the true nature of the business multi-laterals are in; and a powerful instrument to manage efficiency and effectiveness.

The New Danish Guide on Risk Leadership

By Lars Løkke Rasmussen, Minister for the Interior and Health, Denmark



In January 2007, PRIMO Denmark launched their national guide on (public) risk management. The guide was endorsed by the Danish Minister of Interior, Lars Løkke Rasmussen, who wrote the preface to the guide.

“Every day, local authority managers make decisions involving risks; that is, decisions involving *significant uncertainty*. It is important to note that these may be risks facing citizens, local communities or the local authority organisation itself.

Risk is simply a condition of life when the future is uncertain. To put it in another way: making important decisions on an uncertain foundation is *also* part of overall management. Executives can never be entirely certain about the foundations of their decisions. However, if entirely risk-proof decisions were possible, nothing would happen. So, for executives, the whole secret is – in the words of Kierkegaard – to *take upon one self this uncertainty*. Executives in the public sector should, therefore, work systematically on minimising the negative sides of risks and on maximising the positive sides.

The task of dealing with risks in society in general has, so far, been carried out reasonably well. From a historical perspective, the world – not to mention the average Danish municipality – has by no means become a more uncertain or risky place to live. To the contrary: we live longer, we live healthier lives and we have prospects of fewer losses of human lives and assets than ever before.

When we, nevertheless, see a need to focus on public executives’ ability to handle uncertainty, this is due to a number of essential changes of the conditions under which this management is carried out. It is not just a question of a more globalised world, or of a higher degree of complexity in the production of services and the exercise of public authority. And, it is not just a question of an

increasingly larger body of laws and regulations, nor just a question of the rapid technological developments and of the many opposing pressures from an increasing number of stakeholders with whom today’s executives need to deal. It is not least a question of the public’s very explicit and legitimate expectations that the authorities manage the part of our daily lives, for which they today – to a considerable extent – are responsible. This leaves executives with an equally legitimate claim on having decision support; and a systemised decision support for dealing with uncertainties is exactly what risk leadership is about.

By working with *corporate governance*, the private sector has attempted to meet today’s expectations of good corporate governance from the public and from politicians as well as from national and international requirements and regulations. From the very start, risk management has been recognised as an integral part of corporate governance in international codes of conduct as well as in the (for example) Danish Nørby Report. I would argue that the public sector as well should include risk management as a natural part of good *public governance*.

To earn the citizens trust everyday places a heavy responsibility on local authority top executives. Of course, public executives and organisations cannot guarantee certainty and progress. However, they can assist citizens, local communities and private enterprises in handling the risks which are connected with safeguarding the welfare of society now and in the future in a more thoughtful, yet also more proactive, way. Instead of letting ourselves be governed by fear, we should face the future in an intelligent way.”

Risk Management: Making a Difference

By Dr. Lynn Drennan, Chief Executive, ALARM



Two new reports from ALARM on improving corporate performance and preventing fraud show the ways in which effective risk management is making a real difference in the public sector.

Risk management can play a vital role in ensuring improvement in areas of the public services such as service delivery, value for money, equitable relationships with various partners and co-ordinating activities within organisations.

But how can risk practitioners clearly explain the quantifiable difference that effective risk management makes? Narrow, financial measures of corporate performance miss the real performance gains and risk management's high profile contribution to 'public value'.

A new guidance report from ALARM, *Risk Management: Making a Difference*, considers the consistent ways in which risk management is enhancing performance across a range of public sector organisations. The guidance is informed by success stories drawn from participants at a series of workshops run by ALARM and the Audit Commission in 2005.

"Instances of fraud in the public sector show an upward trend, particularly in key financial and operational areas such as procurement, insurance, housing benefits and partnerships"

Using these case studies, the report highlights six different types of potential performance gain: lower risk-related costs; better targeting of resources; better outcomes on corporate objectives; delivery of innovative projects; better outcomes for service users; and protection of reputation.

The report concludes, however, that there could yet be a seventh area where risk management is improving performance: in improving interaction between public sector staff and elected officials.

Managing the Risk of Fraud: The ALARM Standard for Risk Advisors.

ALARM is to launch a new Fraud Standard at its annual Conference in July. *Managing the Risk of Fraud: The ALARM Standard for Risk Advisors*, highlights the key corporate risk areas for public services and provides guidance on the management and mitigation of fraud.

Instances of fraud in the public sector show an upward trend, particularly in key financial and operational areas such as procurement, insurance, housing benefits and partnerships.

ALARM's members have identified 'managing the risk of fraud' as an issue of great importance for public sector organisations. It is in fact recognised at the highest levels of the UK Government and public services, with a report by the Association of Chief Police Officers estimating public sector losses to fraud at £7.1bn (€10.4bn) in 2005/6.

In response to the increasing concern over public sector fraud, ALARM'S Counter Fraud Special Interest Group has produced its new best practice guidance: *Managing the Risk of Fraud: The ALARM Standard for Risk Advisors*. The Standard will enable risk advisors to work in partnership with business managers and governance, audit and counter-fraud colleagues to manage the risk of fraud before it occurs.

Fraud impacts not only the financial sphere of operations and the organization's reputation but can cause breakdown of trust, political fall-out, lowered morale and increase the risk of litigation. In light of these wide ranging effects, the report recommends that organisations undertake a risk review of overall corporate governance arrangements at organisation-wide and business area/service level. Following review, organisations should seek to develop: a strategic approach to the general management of risk; an anti-fraud and corruption framework; a zero-tolerance culture in relation to fraud; strong systems of internal control and partnership working.

ALARM Annual Conference, 1st – 3rd July, Cardiff, UK

The 2007 ALARM Conference looks at some of the issues surrounding the 'nanny state' versus 'compensation culture' and examines 'sensible' risk management strategies.

The Conference is titled 'Risk, responsibility and regulation', after the 2006 report of the same name produced by the UK Government's Better Regulation Commission. This report, led by ALARM's keynote speaker, Lynne Berry of the General Social Care Council, called for a proportionate approach to risk management by government and local authorities.

ALARM's second keynote speaker, David Hunt MBE, the Right Hon the Lord Hunt of Wirral, has been actively engaged in the debates surrounding the 'compensation culture' as an advisor to the Association of British Insurers.

The second day of the Conference is streamed to match the fields from which ALARM draws its growing membership. The five specialist tracks – fire and rescue service, police service, local authorities, housing associations and government agencies – will give delegates the opportunity to create their own personal programme.

PRIMO Europe President, Jack Kruf, will be taking part in a panel debate in the Day Two plenary session. The debate based on the BBC Radio political programme, 'Any Questions' will be chaired by former BBC newsreader Martyn Lewis, and will feature panelists Geoff Taylor, Director of Risk Management, Nike and outgoing AIRMIC Chair; Jack Kruf; Julia Graham, Chief Risk Officer, DLA Piper UK; and Kevin Knight, Board Member of the Risk Management Institution of Australasia

Further information on ALARM and its activities can be obtained at www.alarm-uk.org or by emailing admin@alarm-uk.org.

Risk Management at the Edge of Three Worlds

By Jack P. Kruf, President of PRIMO Nederland, Citymanager of Roosendaal, President of PRIMO Europe



In this article I want to focus on the specific characteristics of the role and position of local authority CEOs in relation to the three worlds of politics, society and management. And specifically, I want to examine the role of risk management in supporting the CEO. In the process of discussing these issues, I want to emphasise that risk management belongs on the strategic agenda and demands a holistic approach.

The “best” job

Some might say it is the most attractive and fascinating job there is: serving as CEO in local public management, (or city manager or secretary). Why? Because it is at the very heart of dynamic society, close to politics and government, at the center of the world of “power and influence” and at the top of the management pyramid. This person sits at the very junction of necessary skills, ambitions, rights, stakes, and interests. He or she is, via society, close to disasters, successes, poverty, environmental challenges, and, via politics, to elected officials like the mayor and local alderman, but always in close contact with officials in higher government, and very close to the professionals in within the organisation. Local government leadership is a very exciting job.

The CEO is a generalist not a specialist. One might say that a realistic comparison of the job would be with the decathlon. As with decathletes, the CEO needs to be well-rounded, competitive and competent within many different areas. Furthermore, the CEO cannot operate in isolation but has to be open to the world, always authentic and at the same time able to act as a chameleon. A phrase that has always appealed to me is to be able to walk the web as a spider and be familiar with the rules of chess. This broad spectrum makes the role challenging, very attractive and influential, but also very vulnerable. And it is here where risk management comes into play.

Risk management

As the demands of the city manager job are diverse but interconnected, so must be the management approach: the manager must

“It is clear that risk management should be seen as a core competence for every public leader”

possess a broad, non-panicky and non-dogmatic perspective on risk and risk management – one which stresses usability in relation to a wide range of public risk issues, as well as to risks in public organisations.

Such an approach requires a holistic, opportunistic and dialogue-oriented form of risk management, which seeks to harvest the value added, the ethical, resilient, and innovative potential in risk management as a natural part of public governance.

The management of risks is one of the most challenging issues for the public sector today. Whether risks arise from the physical environment, economic environment, or even from changes in voter preferences, public institutions have a broad responsibility to assess and address the risks that impact the community they serve as well as their organisation. For example, which risks are possible when making investments in a new IT-system? Which elements of risk are to be analysed when decisions about building a new school are made? Which elements of risk are to be assessed in connection with preventing vandalism and break-ins on municipal buildings? And which risks emerge from decisions made by higher governmental institutions?

It is clear that risk management should be seen as a core competence for every public leader. But what is risk management? In general a way of approaching business, a sound attitude towards and style in managing people, projects and processing as well as in reaching goals. It comprises of course tools and techniques but more than that a smart, honest and external oriented approach – open and authentic. Risk management leads to an effective and efficient way of reaching goals. It is the road to success. Let me focus on the three domains; society, politics and management.

“One of the major goals for the public sector worldwide is a continuous building and rebuilding of public trust in close combination with sustainable development”

The three worlds

The worlds of society, politics and management are always overlapping and connected. This fact requires a new risk management approach. It should consist of more than just preventing losses and reducing costs. Increasingly, risk management can be defined as the coordinated management of all risks. In this regard, modern risk management is a general management function that permeates an organisation, is linked to the organisation's overall strategic plan and serves to enable the achievement of political and organisational goals and objectives.

One of the major goals for the public sector worldwide is a continuous building and rebuilding of public trust in close combination with sustainable development. Risk management is thus a most valuable management concept and management tool in today's complex and globalised world with its increasing demands on governance and compliance.

Risks in society

The attacks on the World Trade and the Madrid trains, the Indian Ocean tsunami, the financial scandals of Enron and Worldcom, increasing poverty, climate change, increasing problems in the supply of clean water, unexpected riots in the suburbs of our cities, the murder of a Dutch politician, the Danish cartoon controversy, and the massacre at Virginia Tech University – all tell us how fragile society is. This underlines the urgency of and demands the control of risks, not only on global but certainly also on local level.

Risk management requires a knowledge of what is going on in society – how it is developing in our streets, neighbourhoods, villages, suburbs and cities. And knowing requires the measuring and monitoring of stress, satisfaction, trust, safety; that is, perceptions of risk as well as objective and factual measures of risk. Monitoring and diagnosing society is important. Understanding relevant trends and developments is critical.

Risk management also asks us to understand in what way and to what extent institutions in society really cooperate; where they should and why they don't. This chain of interrelated institutions should be working if we want to be in control. Only the right information can lead to the right conclusions, and the right things to do. So sensing society and its institutions is a form of risk management.

Of course, we receive some social feedback from citizens during elections. But it is my view that we need to develop a more consistent and permanent way of monitoring and sensing the state or health of society and the risks within it. This will contribute to an overall improvement in the quality of federal and local policies. And if set up internationally, which it should be, lead to more exchange of knowledge and experience between local authorities worldwide.

Risks in politics

It is the task of the CEO to advise his local politicians as effectively as possible, to prevent and even to protect them from risks. This boundary between politics and management requires special attention. Politicians often have a different view of risks than specialists and professionals. The approach here is to invest in the awareness of risks and to put it on the common strategic agenda. This seems so easy but actually is not. Politicians and managers do not always speak each other's language. On the other hand the local government is an entity committed to the development of policies and legislation by politicians on a regional, national and European level. Yes there is the fact these are sometimes difficult to implement or if so against high costs and with intense efforts from municipal organisations.

Risk management compels us to consciously calculate the risks and bring them forward. National organisations should play a key role in this. In my view we should invest in partnerships between the different governmental layers. The other approach is to share your experiences in implementation, synchronisation and cooperate in this as much as possible. In the long term, higher levels of government should involve lower levels of government in policy development and implementation. The best form of risk management is a true partnership.

Mind you, another factor that local government has to deal with is the lack of cooperation on a higher level. Central governmental institutions and ministries are organised by sector: traffic, environment, agriculture, economic, social, legal et cetera. An integrated approach of specific areas, projects, problems or target groups and even individuals is often literally blocked by this compartmentalisation. And this fact itself leads to higher risks for “control” of society. The result is, for example, legislation which is not consistent and may even be contradictory at the local level.

Introducing risk management here implies bridging the gap between the compartmentalized nature of government and the need for integration, truly a real challenge for the city manager, generalist, process engineer, chameleon and spider as he or she may be.

However, reducing the risks of a non congruent and consistent approach on a local level caused by compartmentalisation is often very difficult and frequently impossible. Most power and influence, laws, regulations and budgeting of projects are organised along such sectoral lines. This causes high risks for society. Bridging those gaps may be one of the highest forms of risk management.

“Introducing risk management here implies bridging the gap between the compartmentalized nature of government and the need for integration...”

In general it is very clear that a broader approach to risk management can lead to successful projects and policies and from there to successful local politics and politicians. While this seems obvious, it has not always been that way. Indeed, often risk management is seen as an obstacle to political goals and ambitions. I would simply argue here that risk management enables the fulfillment of goals, and if it isn't happening in an organisation—well—risk management is not being effectively practiced.

Risks in management

The CEO is, in general, responsible for the management of the municipal organisation. And as every manager, he or she has to be perfectly in control and therefore be able to realise the political targets. In this the CEO is, with mayor and alderman, also responsible for the mistakes/faults of the local organisation. In this context, risk management has a lot to do with minimizing errors, mistakes and accidents. Preventing crises and disasters and, if they occur, doing the right things.

Another factor is that good news always travels fast to the top, but the bad news often stays hidden. Most employees never enter the room of the executive to tell the top manager that a decision is very risky and that it will lead to trouble. This would be, as they say, not a good career move. That is the reason that it should be the CEO who puts risk management high on the strategic agenda, as an invitation and a request to employees in the organisation to come forward. Beyond that, he or she has to develop a safe and open culture for employees to talk about risks and, more importantly to reduce them. Most CEOs today delegate directly to others. But it is my opinion that this is a risk in itself. Risk management requires the involvement of all members in the management team, and it requires that they all explicitly share the risks.

Another important aspect of the job of CEO is realising political targets. This demands a management style focused on results. Defining the goals and auditing the risks of not realising them can give an enormous stimulus to develop and focus employees on those results. This is risk management *pur sang* and can assure success and improved control. In this regard the CEO needs to be open and

transparent in his approach to facing risks. In my view the process of reducing risks and uncertainties is often too implicit, sometimes even hidden and not visible.

To prevent the organisation itself approaching risks sectorially it is worthwhile considering the “bundling” of control in the organisation in one place, of course with the checks and balances embedded and incorporated. Legal, IT, financial and quality officers often don't talk with each other because they have their own specialisms. The city manager also has to develop an integrated approach, as it will improve the quality of political advising, addressing the needs in society and fostering higher quality decisions.

The necessity of sharing

In my judgment, all of the preceding comments underscore the importance of sharing—that is, the sharing of ideas, techniques, and strategies among public sector managers. For reasons that escape me, we do not see the level of sharing (between local authorities, between local and central governments, and – yes – between governments of various nations). But sharing is necessary, in significant part because of globalisation. We can learn a lot more if we are prepared to look around us and learn from each other, share our experiences and approaches.

To encourage and facilitate the goal of sharing, a new visionary and comprehensive risk management organisation for public risk management on a CEO-level has been set-up. It is called the Public Risk Management Organisation (PRIMO). It is an international association that strives to establish an influential trans-national network for creating awareness, to set up networks, to connect people, to develop and disseminate well-founded, solid, useful and cutting-edge knowledge on public risk management for the benefit of society, the citizens and the public organisations.

Just get started

Risk management has a good scientific basis, though it is relatively young in the public sector. But there are sufficient tools and techniques available to start. Put risk management high on the strategic agenda. Start the debate about the most experienced risks, create a safe atmosphere and culture in which it is possible to share and bring forward risks. Identifying the risks is a start in itself and the first step for reducing risks and uncertainties on projects, advising and processes. And, I want to underscore this final point; it has to be the city manager who sets the example and leads the way.

Public Risk Perception of Pandemic Influenza in Japan

By Nobuaki Yoshizawa, Senior Researcher, Ph.D., Mitsubishi Research Institute, Inc.



In Japan, social risk management is viewed as a very important part of an effort to reduce catastrophic levels of casualties from pandemic influenza. Understanding and addressing public risk perception and behavior is one of the most important factors within the management of social risk.

Web survey

In Japan, *Web survey* is one of the most popular methods to study public attitudes. I will comment on the findings of a survey of public risk perceptions toward a new strain of pandemic influenza. Original research was reported in Japanese .

Outline of the survey

The survey was performed by NTT Resonant Inc. and Mitsubishi Research Institute, Inc. The period of the survey was July 26 (Wednesday), 2006 to July 31 (Monday), 2006. Valid Respondents were 28,818. Respondent Attributes were shown below.

Sex: Males (47%), Females (53%)

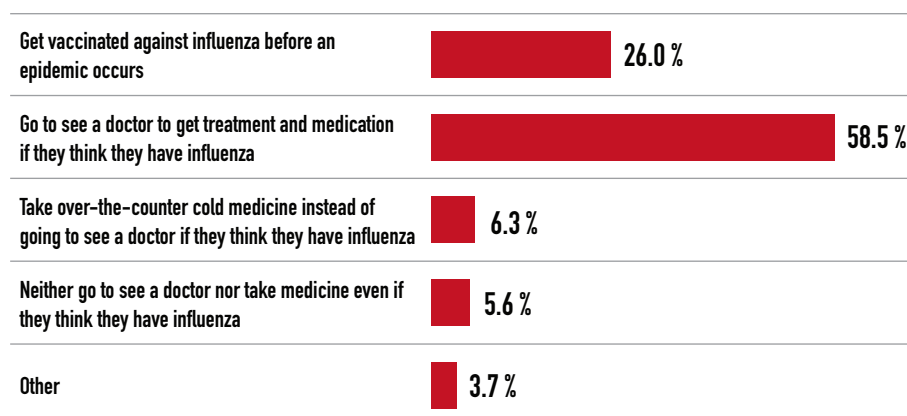
Age Groups: 10's (2%), 20's (21%), 30's (39%), 40's (25%), 50 or older (13%)

Preparedness for ordinary influenza

As shown in Fig.1, when asked about conventional measures against influenza, 26.0% of respondents said that they "would get vaccinated against influenza before an epidemic occurs", and 58.5% said that they would "go to see a doctor to get treatment and medication if they think they have influenza". Meanwhile, 11.9% said that they would not see a doctor even if they think they have influenza. (They "take over-the-counter cold medicine instead of going to see a doctor if they think they have influenza")

Figure 1: "What measures do you take against influenza?"

Please choose the one that is closest to your own measures." (single choice) (n=28,818)



or “neither go to see a doctor nor take medicine even if they think they have influenza”).

Anxious about a New Pandemic

When asked about anxiety about the possibility of an outbreak and worldwide pandemic of a new strain of influenza, 26.8% said that they are “very anxious”, and 56.4% said that they are “somewhat anxious”, the total of which comes to 83.2%. Meanwhile, only 13.3% said that they are “not very anxious” or “not at all anxious”. Those results are shown in Fig.2. This means that many of citizens in Japan feel anxious about a pandemic of a new strain of influenza.

Association between Measures Anxiety

As it turned out, respondents who said of conventional influenza that they would get vaccinated before an epidemic occurs are more anxious about a new strain of influenza, as shown in Fig.3. This means that the groups of people who feel great anxiety about a new strain of influenza are those who can act properly as long as information is provided in advance. In order to prevent a sense of anxiety from growing unnecessarily, it is considered to be important to proactively send out information on action plans and so on. In addition, it is also important to continually raise awareness among people who are not anxious.

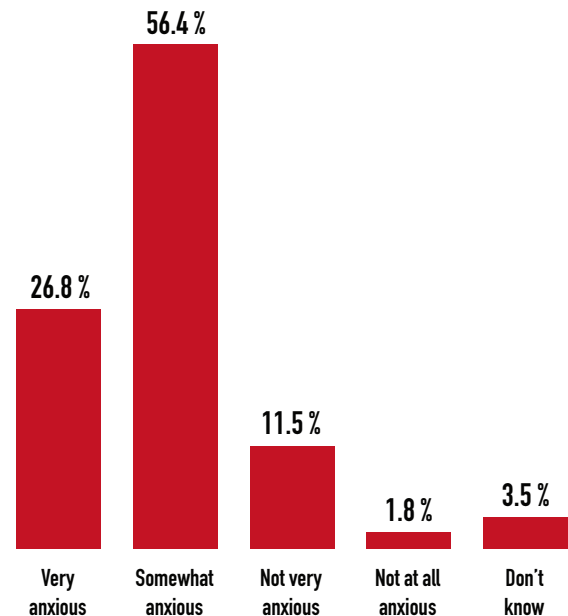
Summary

From this survey, it was found that many citizens in Japan had great anxiety about new pandemic influenza. In these situations, proactive risk communication is one of the most important and effective approaches to reduce a large amount of casualties for pandemic influenza.

If you want to get a complete report of the web survey, please contact Nobuaki Yoshizawa (yoshizaw@mri.co.jp).

For information about Mitsubishi Research Institute, Inc.:
<http://www.mri.co.jp/E/index.html>

Figure 2: “What do you think of the possibility of an outbreak and worldwide pandemic of a new strain of influenza in the near future?” (n=28,818)



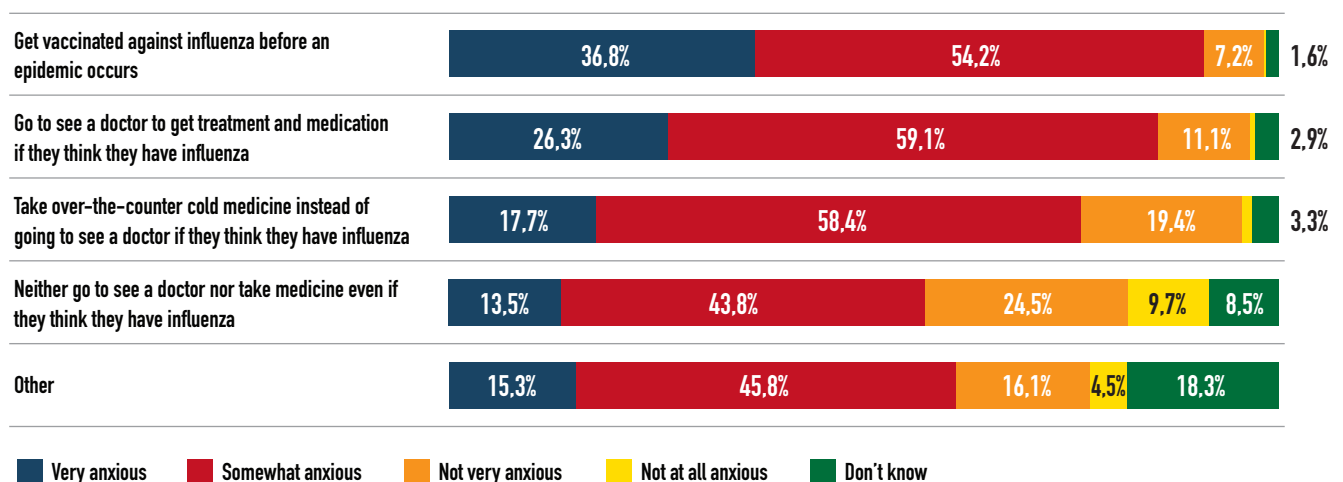
Details of Question for Figure 2

“With regard to the current avian influenza virus, while bird-to-human transmission has been confirmed, human-to-human transmission has not yet been confirmed. However, there is concern that virus transformation may cause an outbreak of a new type of human-to-human transmitted avian influenza (new strain of influenza). In the 20th century, three pandemics were caused by a new strain of influenza as shown below.

- Spanish flu in 1918
- Asian flu in 1957
- Hong Kong flu in 1968

Although all of them are referred to as “colds” in Japanese, they are actually considered to be new strains of influenza. What do you think of the possibility of an outbreak and worldwide pandemic of a new strain of influenza?”

Figure 3: Association between measures against ordinary influenza and anxiety about an outbreak of a new



Disaster Risk Management in Japan

Part 1

By Satoru NISHIKAWA, Director for Disaster Prevention/Preparedness, Public Relations and International Cooperation, Cabinet Office, Government of Japan



The oldest official written record of a major earthquake (in Japan) dates back to 416 AD. The oldest written record of an earthquake-tsunami dates back to year 648 AD. Hence the Japanese history may be described as the struggle to confront and adapt to natural disasters

1. The Threat of Natural Disasters in Japan

Japan, due to her location in the circum-Pacific “Ring of Fire” and in the Typhoon alley, has been menaced by natural disasters throughout the entire course of her history.

The oldest official written record of a major earthquake dates back to 416 AD. The oldest written record of a major earthquake-tsunami dates back to year 684 AD. Hence the Japanese history may be described as the struggle to confront and adapt to natural disasters. In the popular “Ukiyoe-prints” in the 19th century, there are drawings of the citizens of Edo (old name of Tokyo) trying to beat the legendary monster catfish which was believed to have triggered a major earthquake which hit Edo in 1854.

In 1923, Tokyo was devastated by a major earthquake of M7.9, and lost more than 105,000 lives and approx. 40% of the GDP of Japan. Therefore, in Japan, natural disasters are seen as the major threat to society.



Traditional “UKIYOE” drawing after 1855 October Ansei-Edo Earthquake

2. The First Epoch-making Turning Point 1961

In the 1940s and 50s Japan was repeatedly ravaged by typhoons and earthquakes. Almost every year, thousands of lives were lost. In 1959, Ise-wan Typhoon hit the third largest metropolitan area Nagoya and killed more than 5,000 people. This heavy damage triggered a big debate in the Japanese government on how to cope with natural disasters. After two years of debate, the Disaster Countermeasures Basic Act was legislated. This Act has three major characteristics.

1) The Central Disaster Management Council, chaired by the Prime Minister and with membership of all Ministers of the Government as well as heads of semi-public organizations, such as Public Broadcasting, Bank of Japan, Japanese Red Cross and the Telecommunications Company as well as representatives of Academia. This Council was given the role of formulating the overall policy for disaster risk management and functioned as the national coordinating body for disaster management (fig1 - se next page).

2) The roles and responsibilities of the National, Prefecture and Municipal Governments as well as community organizations and citizens regarding disaster reduction were clearly defined and the three layers of governments were obliged to make their master plans for disaster reduction. Also all the Ministries and semi-public organizations were obliged to make their sectoral disaster management plans.

3) The Cabinet must submit annual official report to the National Diet, regarding the status of disaster risk management and the budgetary allocations to disaster reduction programs. The National Diet, both in the lower house and the upper house formed a special committee for disaster management, have continued to monitor governmental efforts for disaster reduction. Hence, even in a year where no major disasters occurred, disaster risk management was always put on the national political agenda, and thus mainstreamed disaster reduction in the national policy and as a result, helped in securing financial basis for disaster reduction.

This Basic Act proved to be quite effective in addressing not only the emergency response but also prevention/mitigation, preparedness and recovery/reconstruction, all the four phases of disaster reduction through a holistic multi-sectoral approach. Although the number of typhoons attacking Japan has not changed in average over the last 40 years, the number of casualties by natural disasters has greatly decreased (fig2).

(to be continued to the next issue)

Figure 2:

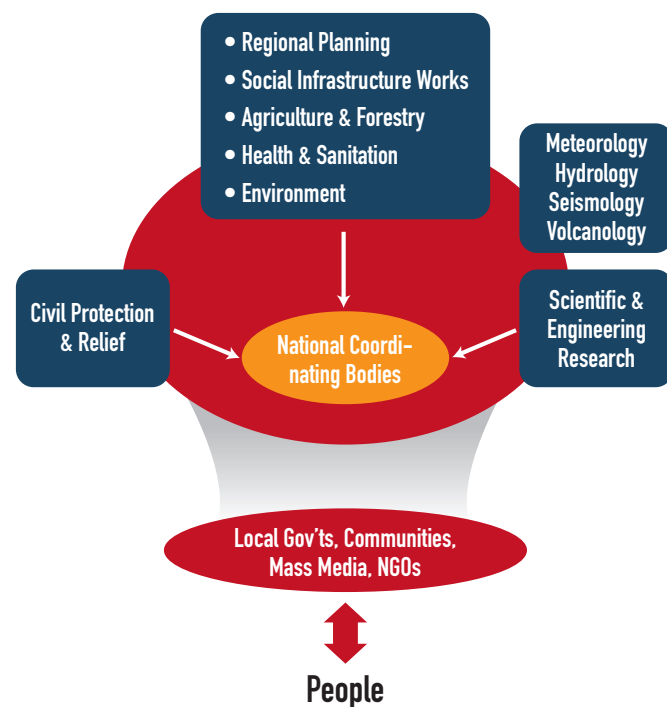
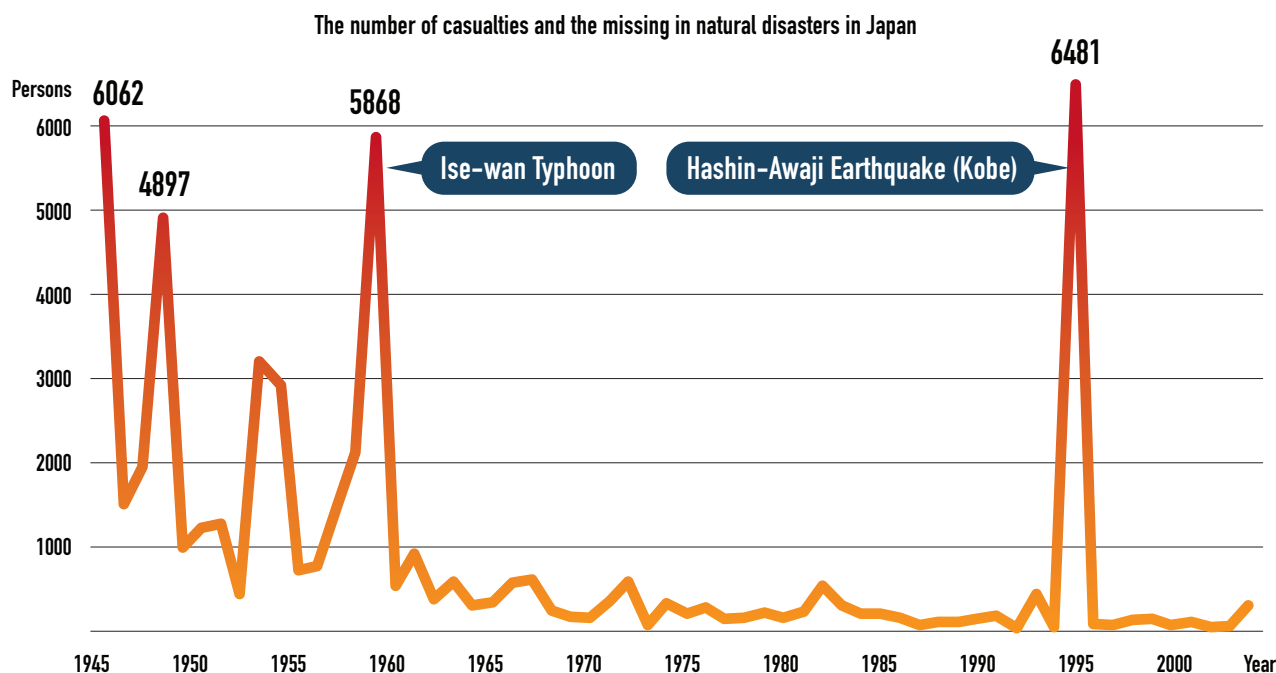


Figure 3: The Holistic Approach to cope with Disasters – The Japanese Experience.



“Say WHAT?”

Spreading the Word about Your Risk Management Program

By Paree L. Roper, Industry Specialist, Public Risk Management Association



“The newest computer can merely compound, at speed, the oldest problem in relations between human being, and in the end, the communicator will be confronted with the old problem, of what to say and how to say it”

Edward R. Murrow

Edward R. Murrow is regarded as one of journalism’s greatest figures. During World War II, his live radio broadcasts throughout the London Blitz as well as his eyewitness accounts of Nazi aggression during the Anschluss will be remembered as hard-hitting, far-reaching, and powerful moments in broadcasting.

The aforementioned quote identifies an age-old quandary well-known to most of us who are charged with the task of promoting risk management. Unprecedented changes are occurring within the field and within our organizations. How do we make solid impacts, find our way into those far corners of our entities, and enable people while making risk management an integral part of everyday life?

As risk management practitioners, we implicitly understand the need for solid technical components such as clean and unbiased data, reliable and easily understood reporting mechanisms, and virtuoso training programs. In my judgment, we “get it” concerning the nuts and bolts of risk management. The question I would like to pose is whether we can “give it” in a way that members of our entities will not only “get it,” but will openly “receive it”?

Teaching people about risk management is not easy, for there is a great deal of territory to cover and so many pieces to assemble. In addition to the technical pieces, I would invite you to incorporate these three items when spreading the word about your risk management program:

- Learn about the people and lands you must travel to
- Provide a vision worth viewing
- Show respect and good will

Have you anything to declare?

International travel often presents experiences to remember. Some of those memorable occasions may occur when passing through customs, for the process can differ from country to country. There are times when one may face intense questioning and intrusive inspections from customs officials, yet there are other times when one merely walks through a green door. Once inside the country, there are matters of understanding cultural differences, completing purchases with money that looks nothing like what you are accustomed to, and speaking the local tongue without creating an international incident.

We all want others to know about and support this fantastic risk management program you have put together, but there are the “customs officials,” the unknown cultural norms, and in many cases, an unfathomable brogue used by the department that challenges your communicative abilities. What is a risk manager to do? Take a deep breath, relax and remember these two quotations:

“The devil is in the details”

- an old proverb

“God is in the details”

- architect Ludwig Mies van der Rohe

Sounds paradoxical, eh? Perhaps, but the underlying point is that it is in your best interest to pay attention to details no matter which one of these statements fits your world view. Each department is like a country unto itself with its own currency, culture

and language. Become familiar with these elements and how they work in this setting. If you are a hard-driving, I-want-results-now type of leader, but the folks in the department you are working with have a culture of collaborating on decisions, take this into consideration. This does not mean going into the department and becoming one of the gang- if you were traveling to another country, this would be a major faux pas. It means going in with plenty of knowledge about their way of being in the world. The best way to find this information is to ask questions and open your ears. Most people are more than willing to talk about what it is they do, why they do it and who is involved. A side benefit of doing so is that these conversations often identify risks, activities and exposures that were previously unknown.

Another part of learning about the world in which others live is to recognize that despite differences, people bring many of the same strengths, desires, foibles, and fancies you bring to your job-they just operate in a different framework. Your mission is to find out what is really important to them, understand the issues they will go down in flames for, and locate the common ground. Information of this sort is not just idle chatter. These items can help map potential exposures and reveal where political snares and barriers to communication could be lurking.

“Get to know who the formal and informal leaders are, and find out where your department allies are located. If you treat folks as potential allies, they may become one.”

Get to know who the formal and informal leaders are, and find out where your departmental allies are located. If you treat folks as potential allies, they may become one. The more you comprehend their world, the better prepared you will be to guide them toward your vision.

I Can See For Miles and Miles and . . .

A walk across the Golden Gate Bridge on an incredibly clear and sunny day is forever etched into my memory. The sight of those graceful lines and towers of this stunningly beautiful suspension bridge turned a practical experience of getting from point A to point B into an unforgettable aesthetic one. The unparalleled views from the bridge of San Francisco and the surrounding area figure prominently in my mind's eye when I think of favorite places I would rather be than in front of a computer monitor.

As a risk manager, you are a bit like the tour guide who tells people to stand in a certain place in order to get the view that makes the lasting impression. In order guarantee that what they are seeing is memorable, build it up. Make it clear what is in it for them.

“As a risk manager, you are a bit like the tour guide who tells people to stand in a certain place in order to get the view that makes the lasting impression”

Any information given to the group must have significant meaning and be shared freely. A vehicle such as an annual report presents a superb opportunity for introducing risk management in a positive light. The same goes for risk management toolboxes, web sites and safety publications. Show folks where to stand in order to get the best view. Offer to present information to a work group or department instead of just distributing a copy of a report. Review and audit these items periodically in order to refresh data and update content. Better yet, have persons who are *not* involved with risk management review materials in order to get different perspectives on how the materials are seen.

Tell the good stuff as well as the bad. We as risk managers are often painted as the “naysayers” who, through a predictable set of Pavlovian responses, will throw cold water on an idea or plan. This sort of view can undermine the best intentions of a risk manager. If we can make it a point to examine the “up” side of a potential exposure with the opportunities it can present as well as look at the potential hazards, we may find ourselves in a better overall position of influence. Involve department members in this process, and once they are involved, cover the backs of the folk who are going to bat for you. Clear obstacles and eliminate rules that serve no beneficial purpose.

The late actor John Houseman made it very clear in a commercial from the 1980s how the Smith Barney brokerage firm made its money. The phrase “they earned it” was uttered in such a way that there was no doubt about its meaning. We as risk managers have to earn the right to lead people toward a view that inspires and that makes a positive impression.

Aretha Was Right!

Those of us in America who grew up during the Motown era can remember hearing Aretha Franklin sing about r-e-s-p-e-c-t. She went into elaborate detail about all the things she was willing to do for her beloved, but she made certain to toss in a huge qualifier. As simple and basic as it sounds, respect is frequently overlooked as a tool in communicating your risk management agenda.

Let's say you are in the midst of implementing enterprise risk management into your organization and are in a conversation with a cohort over lunch. The topic is the maintenance department and you are not in a kind frame of mind, for the depart-

ment has been resistant to your agenda in the past. Remarks are made like “the maintenance guys could give two flips about risk management. They are not worth my time.” Unbeknownst to you, the man sitting at a nearby table is the best friend of one of the top-notch maintenance people. The friend overhears everything you have said and tells the maintenance man about it. He in turn speaks with his boss, who is scheduled to meet with you in a week. The eventual meeting with this boss winds up turning into a major donnybrook, complete with black eyes, wounded egos, and the question “What was the license number of that truck that hit me?”

“Gain potential allies for your risk management program by setting the proper tone through your own respectful speech and behaviour”

This scenario may sound preposterous to some, but read between the lines. A message had indeed been sent that impacted people in a distant part of your entity. What it failed to do was empower. Even if nothing had been said about the department during the lunchtime conversation, similar results could occur if you were in meetings with this group and projected an attitude of disdain toward them. The reality is that members of this department must be given good reasons to support your cause. Gain potential allies for your risk management program by setting the proper tone through your own respectful speech and behavior.

“Breaking down silos” is a term we hear on a regular basis (some may say ad nauseum), but silos exist for many reasons. We, as businesspeople, often view ourselves as objective and dispassionate, but in reality, we are still human beings who crave affiliation. For all the talk about how divisions of labor within an organization create silos, a work group is part of a person’s identity and is seen in many respects as a family. This is a very real emotional construct that carries with it strong implications for dealing with a group’s dynamics. One implication to consider is that even when the group is dysfunctional, members of the group will defend it against outsiders. The silo can and will protect against what it may perceive as an attack on its existence.

So now what?

You have laid the groundwork for a successful endeavor. The response to your presentations is one a risk manager dreams about. What else is there to consider?

The process of communicating your risk management initiatives is never-ending. There will always be new people coming in who need to be brought up to speed, different twists to old situations, and unforeseen challenges that will call on your time and energy. Your credibility as a leader rests on continually updating yourself

on the organization’s workings, keeping the vision fresh in the minds of others as well as yourself, and respectfully dealing with challenging people, frustrating roadblocks, and circumstances over which you could only wish you had some modicum of control.

There is plenty to say about your risk management program. Just make sure the voice people hear is one that speaks with integrity and accord and provides a message worth repeating.

Climate Change — It Won't Affect Me!

By Ross Wilkinson, B Bus CPRM MRMIA and Richard Ager, FFIN, MPD
Victorian State Government Department of Infrastructure.



World Problem – local response.

So what is this “Global Warming” or “Climate Change” or whatever they call it? Some scientists say we are using too many motor cars and it is making the world heat up too fast but I don’t use my car that much so I should be all right. Anyway, it’s just a couple of scientists talking mumbo jumbo.

One thing it has done is to introduce new words and ideas into our heads; words like “global warming”, “climate change”, “greenhouse effect”, “greenhouse gas emission”, “Kyoto”, “carbon trading”, “El Nino” and so on.

It has also introduced us to the concept of global impacts affecting our daily lives. These impacts include hotter temperatures, the melting of the polar icecaps, rising sea levels and extreme weather conditions.

Australia has a Federal election in the latter part of 2007 and climate change will be firmly on the agenda in light of the current severe drought, and the current government’s decision not to ratify the Kyoto Agreement.

Global Warming – what is it?

World opinion may be divided, yet there exists a significant scientific body of evidence and opinion that the earth’s atmospheric temperature is rising. The Third Assessment Report (TAR) of the Intergovernmental Panel on Climate Change (IPCC) published in 2001, concluded that global warming has occurred over the last century and that there is new and stronger evidence that most of the warming over the last 50 years is attributable to human activities. Lending weight to this position is the Commonwealth Scientific and Industrial Research Organisation (CSIRO) also concludes that human activity has contributed to climate changes over the past century.

While there may be some opinions that climate change remains a long term natural cycle, as projected global warming for the 21st

century is considered comparable with past changes during the glacial-interglacial cycles. The evidence available suggests the cycles are likely to be faster, and lead to a warmer climate than past interglacial cycles. A big difference is that now there are more than 6 billion people living on Earth, and natural ecosystems are more fragmented so that human exposure to risk is much greater than in the past.

It is therefore becoming more widely accepted that climate change is occurring and we are witnessing an increase in the mean atmospheric temperature. Importantly, and from a risk management perspective, this change in mean temperatures is predicted to be anywhere between 1.5 and 5 degrees in its extreme. This change to mean temperatures is predicted to change weather patterns resulting in weather events (such as cyclones, hailstorms, droughts etc) of greater intensity. This warming is also leading to the melting glaciers and ultimately the polar ice caps. The melting of these large ice bodies is expected to cause a rise in the mean sea water level of up to one metre. The evidence of upward trends is already with us, for example, the CSIRO has observed a mean rise in global temperature of 0.7 degrees and a mean rise in sea level of 17 centimetres since 1900.

Less obvious yet significant consequences of climate change include significant potential for geo-political conflict. At a conference in Canberra, the head of Australia’s Defence Force, Air Chief Marshall, Angus Houston, spoke of future security challenges stemming from climate change, resource depletion and economic disparity. He said, “Predicting the future is very difficult.... but we can sketch the contours.”

The Australian Government's view is one that is increasingly accepting of the reality of climate change and it is beginning to take the view that the Australian population must adapt to inevitable changes. Considerable work, has and is continuing to be done to assess the impacts across the Australian continent, and it is not considered likely that climate change will impact every aspect of our society's activities.

Impacts and related solutions, are presently the subject of widespread intellectual, corporate and governmental debate and assessment. They may be considered as adaptations.

Global Warming – the outcomes

Some impacts:

- increased water flow intensity on aging and inadequate drainage
- structural cracking due to ground shrinkage during drought
- structural corrosion due to exposure
- increased scarcity and cost of food resources
- increased costs of building design and construction
- increased service costs for electricity and water
- loss of coastal land
- obsolete water catchments and lack of drinking water
- extremes of climate causing ground instability
- greater exposure to rural wildfires
- human psychological behaviour changes and conflict

Some solutions:

- infrastructure upgrades
- new construction and engineering standards
- drought-proofing new structures
- alternative energy sources
- “clean” versus “dirty” energy source
- alternative building design and construction materials
- construction of alternative water sources including domestic tanks
- alternative fuel motor vehicles
- innovative water catchments, generation and management
- implementation of an emissions trading scheme

Global Warming – leadership

The response to global warming and climate change might logically be a partnership between government, business and society. As with many situations which are related to the distribution of social benefits the various levels of government will most likely play a large part in providing guidance and leadership.

In Australia, the forthcoming Federal election will most probably see climate change as one of the major issues put forward for debate. At the present moment, the positions of some of the relevant parties are:

Labor (major party in opposition (historically socially progressive policy platform))

- ratify Kyoto
- cut emissions by 60% by 2050
- implement an emissions trading scheme

Liberal (sitting government (historically conservative policy platform))

- meet Kyoto targets
- new global strategy to replace Kyoto and beyond
- develop nuclear power

Greens (minor but growing influence)

- cut emissions to 30% below 1990 level by 2020
- anti-nuclear

Global Warming – future directions

The article so far, demonstrates the debate that has been occurring at mainly academic, political and policy levels. This debate has seen an acceptance (although in some cases reluctantly) that firstly, global warming is occurring and secondly, that human activity might be contributing. Does wider society truly understand, or accept the postulated cause or likely outcomes? We argue that the debate, or a true appreciation for the consequences, has not yet made its way to the wider population. Despite recent events, the drought and extreme storms, the consequences of climate change is not in the public's front yard. There is a danger society will ignore the problem. Despite recent droughts, with good rain, society may become complacent, discounting climate change as a contributor to the severe conditions.

“Collectively measure as a society's ecological footprint, climate change is potentially a lead indicator for other significant environment related hazards”

In considering climate change, we are compelled to also consider related challenges which are likely to either compound the effects, or create new risks. They are world population growth, consumption, resource availability and resource allocation. Collectively measure as a society's ecological footprint, climate change is potentially a lead indicator for other significant environment related hazards.

In every case government must lead in shaping and maintaining the community's understanding and attitudes. Government must ensure that it engages the community in a way that ensures the issues can be properly accepted or we face the significant risk that society does not become engaged in the solution early enough to effect change.

Global Warming – impact on authorities

In a paper published in March 2007 at Griffith University titled Climate Change: What Are Local Governments Liable for? by Dr

Philippa England was part of its Urban Research Program, it was argued that local planning authorities could be held liable for failing to accommodate reasonable climate change impacts in future planning considerations. The paper did recognise that authorities would have to be shown to be negligent in their acts or omissions.

It is our view as public sector risk managers that other levels of government and local authorities also have a part to play in planning and developmental approvals. And that failure to plan at any level for the reasonable impacts of climate change could potentially lead to an exposure to liability for adverse consequences. Have these risks been identified, assessed and entered in the relevant risk registers of planning authorities? We suggest not.

Global Warming – Australian Government initiatives

In an attempt to inform and engage the community, in 2006 the Federal government has released the publication *Climate Change Impacts & Risk Management – a Guide for Business and Government*. Notably, the document is based on methodology from Australian Standard AS/NZS 4360: 2004 Risk Management.

Additionally a supplementary paper has been prepared by the CSIRO and titled *Climate change scenarios for initial assessment of risk in accordance with risk management guidance*. It provides some base observations and scenarios of climate change impact for various Australian regions. Observations related to infrastructure include planning and construction considerations and also considerations for impacts on existing infrastructure including probable insurance costs.

If the assertions about the validity of climate change are accepted it is appropriate to accept that there would be an argument for a globally accepted approach such as attempted by forums such as Kyoto. The challenge lies in communicating these global approaches into local strategies which are understood and accepted by communities across the nation.

Global Warming – Global Warning

There is much literature, much research and much speculation on the causes, manifestations and likely outcomes of global warming. Nevertheless, we have reached a stage where we accept it is occurring. Australian society is beginning to recognise two main strategies for dealing with climate related issues. They are:

- adaptation to many and varied consequences of rising temperatures
- treatment of the root causes of climate change.

The job is really only beginning in earnest. In leading the community, governments will need to take an active role in:

- educating the community
- look global to develop globally compatible management strategies
- cooperating with others
- leading and ensuring that they are seen to lead
- Engaging and encouraging society actively participate

The ecological footprints of societies around the world is beginning to show that the world may be facing many new hazards. Coordinated action by authorities at all levels, and across the globe may be required to avoid potentially extreme negative consequences.

We may have less time than we think and all risk managers can play a significant role in bringing these issues to the 'front of society's mind.

Note:

The views expressed in this article are those of the authors alone and do not reflect any policy or position of their employer, the Department of Infrastructure or the Victorian State Government.

Advancing Community-Wide Risk Management in the U.S.

By Claire Reiss, Deputy Executive Director and General Counsel of PERI



Communities are dynamic, living systems comprised of stakeholders that include public entities, business and nonprofit entities, individuals and families. A community's stakeholders are interdependent: what affects one group reverberates throughout the system. From natural disasters and public health emergencies to economic downturns (or opportunities), communities share in the risk consequences that affect their stakeholders. The ability of each stakeholder group to manage risk effectively affects the other groups and the entire community.

This is the community-wide perspective on risk that sets the Public Entity Risk Institute (PERI) apart. PERI was established in 1997 as a nonprofit, non-membership organization to help public entities and small business and nonprofit entities overcome challenges to effective risk management. PERI seeks to strengthen communities as a system, by helping their stakeholders better manage risk.

PERI Programming

PERI develops its programming both internally and in partnership with other organizations that promote strong communities. From its inception, PERI has focused on providing accessible, high-quality risk management information, education and training resources. Through a series of innovative partnerships with universities and local government, private sector, and nonprofit organizations, PERI has developed an extensive library of resources that are available on its website, www.riskinstitute.org. PERI's online resource library includes articles, publications, research reports, and e-training programs on topics such as emergency management; hazard mitigation; school violence; safety and health; global warming; workers' compensation; and risk management benchmarking and performance measurement. PERI also conducts free online symposium programs where experts share "issues and ideas" papers that explore practical strategies for dealing with pressing risk issues. PERI's two most recent symposium programs explored local government preparation for and response to a flu pandemic, and strategies for dealing with violence in schools.

PERI is currently supporting several unique projects. PERI has partnered with the University of Delaware to create the *PERI Presidential Disaster Declaration Website*, www.peripresdecusa.org, which compiles information about Presidential Disaster Declarations dating back to the Eisenhower Administration into a searchable database. This free on-line resource allows researchers to study by state and county the nature and cost of presidential disaster declarations (as well as disaster requests that were denied), providing essential information for analyzing disaster exposures and trends.

PERI and the International City/County Management Association have established the *National Emergency Management Network (NEMN)*, a nationwide network of U.S. local governments that are willing to share resources in an emergency. NEMN helps local governments form relationships before an emergency occurs. The network is supported by a web-based platform that permits local authorities to visualize, share, deploy, and manage emergency response and recovery resources within their own communities and, if they choose, with other NEMN members. In an emergency, members can use this platform to rapidly identify available resources and request assistance from other network members. More information about NEMN is available at www.nemn.net.

Under a 2006 cooperative agreement with the U.S. Department of Homeland Security (DHS), PERI is conducting the *Citizen Corps Liability Project*. Citizen Corps promotes volunteer service activities that support homeland security, community safety, and disaster response and recovery. Liability exposure for volunteer

entities and individuals can be a barrier to involvement, and varies greatly among the states. The project will produce a comprehensive package of educational materials, tools and best practices to help Citizen Corps councils and programs, and other involved parties understand and manage the associated liability issues.

This spring, PERI will release a new publication *Emergency Management: The American Experience 1900-2005*, which details the evolution of emergency management in the U.S. and examines how the federal government's role has changed in response to major disasters. The result of extensive research, with each chapter authored by an expert in emergency management, this book offers a unique historical perspective of the appropriate roles for the federal, state, and local governments in emergency management.

PERI has funded research to identify the reasons that some small businesses recover from disasters and others do not. Later this year, a new book, *Managing in the Aftermath: Learning from What Happened to Others*, by Professors D.J. Alesch and J.N. Holly, will present lessons learned from more than a decade of research in disaster affected communities. The authors interviewed local officials, business owners, community leaders, and citizens, returning often to the same communities over the years to track recovery processes. This book shares the stories and perspectives of affected communities and the lessons learned from their experiences.

Risk management benchmarking and performance measurement have emerged as core programs at PERI over the past few years. PERI operates the *PERI Data Exchange*, a unique national database of U.S. public sector liability and workers' compensation claim data that facilitates risk management benchmarking and performance measurement. The Data Exchange allows a city, county, or other public entity to compare and analyze losses against similar entities. The Data Exchange also provides a research database for the study of high performing organizations and recommended practices for reducing claims and controlling costs.

For More Information

In the coming months, PERI will provide updates on its activities through Public Risk Forum and PERI's free quarterly newsletter, *PERISCOPE*. For more information about PERI or to learn more about the research projects underway, please visit PERI's website at www.riskinstitute.org or contact PERI at (703) 352-1846.

News Release: London Boroughs Announce Launch of Risk Pool

London Authorities' Mutual Limited (LAML) opening its doors for business was the culmination of a four year development process. An article in the Local Government Chronicle's Public Treasurer supplement written by Martin Fone and Peter Young and published in February 2003 speculated as to whether the time was right for UK local authorities to investigate the feasibility of establishing their own mutual insurance arrangement along the lines of the US municipal pools to create a more cost-effective means of financing and managing their insurable risks and exposures. In many ways the publication of this article was the start of the process.

The powers available to local authorities were strengthened at the turn of the century with the introduction of the 'well being' powers under section 2 of the Local Government Act 2000 and the loosening of the constraints on local authorities to trade and establish companies in the Local Government Act 2003. Various central government policies also created an environment where municipalities were encouraged to explore ways in which to work together – the shared services agenda, the National Procurement Strategy – and the Gershon review focused attention on reducing frictional costs in transacting business.

By 2005 the Society of London Treasurers were sufficiently attracted by the potential of a mutual to finance and manage their risks that they applied to the London Centre of Excellence, one of nine such regional bodies around the UK that work to make local councils more efficient, for funding to commission a feasibility study.

Following a procurement exercise Charles Taylor Consulting plc were commissioned to carry out a feasibility study which was run in the autumn of 2005. 26 London Boroughs participated in the study. The study found that there was the opportunity to offer participating authorities reductions in premiums as well as offering them a vehicle which would grow its asset base and offer the prospect of underwriting surplus being redistributed back to the authorities rather than being lost to commercial insurers. The findings were sufficiently encouraging to prompt the Society of London Treasurers to apply to the London Centre of Excellence for a further grant to fund the implementation project. Charles Taylor Consulting plc were awarded the implementation project contract and Croydon took the role of lead authority.

The implementation project, commencing in April 2006, had a number of significant challenges to overcome:

Vires – QC opinion confirmed that the creation of a company to manage and finance the risks and exposures of London Boroughs was within the powers of local authorities. It also confirmed that

the creation of a mutual using public funding would not fall foul of any Competition Act or State Aid implications.

Legal form – the constitutional documentation governing the company – its memorandum and articles of association and the rules of the mutual were carefully constructed to ensure that the power and influence of the member authorities over the company were not diluted.

Procurement law – QC opinion confirmed that the construct of the company allowed authorities seeking to join the company to exempt themselves from the public procurement process. This meant that the authorities could guarantee their business to the mutual at the natural expiry of their long term agreements. The mutual itself, however, had to procure its relevant services – re-insurance protection, claims handling services and mutual management services – through the public procurement process.

Member Commitment – a high-risk strategy was adopted to obtain member commitment. To ensure that the mutual was viable and was to quickly obtain critical mass Directors of Finance of each of the London Boroughs were required to obtain the formal consent of their elected councillors to participate in and to fund the proposed mutual. In the autumn of 2006 10 London Boroughs had met this target giving the mutual sufficient critical mass to be viable.

Regulatory approvals – on 31st October 2006 LAML applied to the Financial Services Authority for the necessary regulatory approvals. After sharing its business plan and its projected results and after a period of intense negotiation on the level and form of capital required to capitalise the mutual, the necessary regulatory approvals were obtained.

Reinsurance support – although LAML is an insurance company the magnitude and concentration of risks which it is assuming requires it to be a significant buyer of reinsurance protection. Despite initial concerns about the availability and affordability of reinsurance protection LAML was able to purchase a programme with 20 participating reinsurers providing capacity at a cost within its target price.

LAML has a Board of 8 directors, 6 of whom are Directors of Finance of authorities committed to joining the mutual and the other 2 are independent directors with significant insurance industry expertise. The 32 London Boroughs, the City Corporation of London and the Greater London Authority are eligible to join LAML which is already writing in excess of £1 million of gross premium income.

Authorities participating in LAML are required to take significant each and every occurrence deductibles. LAML provides excess of loss insurance and aggregate stop loss protection in respect of the participating authorities' Liability and Property and Terrorism exposures. As well as offering rate reductions on expiring terms LAML has been able to provide its members with significant coverage enhancements in the form of increased limits and coverage enhancements which are not available from the major commercial insurers operating in the public sector. As Nathan Elvery, Chairman of LAML and Director of Finance and Resources at Croydon, said at the launch "LAML is without precedence and represents a fresh injection of competition in the market". Ken Cole, director of the London Centre of Excellence commented "The key to reaping the full benefits of the mutual is participation as the more authorities that participate the greater the benefits for those participating will be. I'm sure both local government and the wider insurance industry will be watching developments closely". LAML has already had a number of approaches from authorities not part of the original 10 to discuss applications for membership.

And the LAML success story seems to be about to be replicated elsewhere. Charles Taylor Consulting plc are working with Firebuy, the National Procurement body for the Fire and Rescue Services, to create a mutual for the English Fire and Rescue Services and this should be assuming risk in the third quarter of 2007. A number of other groups of local authorities are actively examining the feasibility of creating mutuals.

The face of local government insurance in the United Kingdom is changing and changing fast.

Strategic Risk Management (SRM)

– Outlining the Contours of the ‘New Risk Management’ Paradigm

By Torben Juul Andersen, Professor, Copenhagen Business School



Turbulence and change are prevalent characteristics of global markets that expose organizations to many environmental phenomena beyond managerial control and these risk events may have significant adverse effects on economic outcomes. Societal wealth creation, therefore, depends on the ability of public and private enterprises to organize in ways that make them responsive to these often unforeseeable influences.

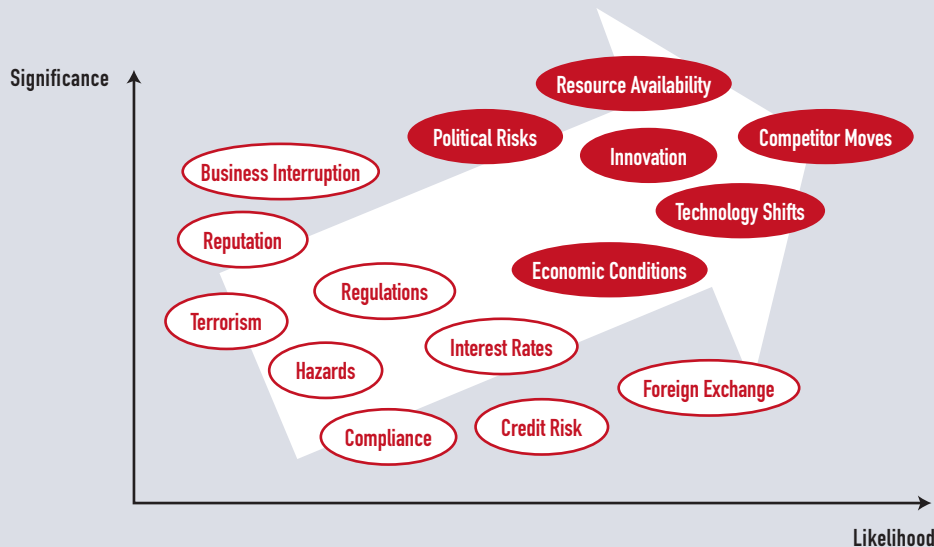
Multinational corporations, small-medium sized businesses, public sector entities, the communities in which they operate, and society at large are exposed to many factors that are outside the control of executives and policy makers. These exposures span a variety of influences ranging from commodity and financial market prices, macroeconomic conditions, operational disruptions, human misconduct, technological shifts, competitor moves, socio-political events, natural hazards, man-made disasters, etc. Each of these risk areas are addressed through rather disparate practices of financial risk analysis, exposure limits, actuarial modeling, insurance contracting, alternative risk-transfer, contingency planning, risk mitigation, preparedness, etc. Business enterprise and society are also faced with potential systemic risks embedded in interacting global markets, worldwide climatic changes, and threats of international terrorism. All of this accentuates a need for effective strategic risk management practices to deal with these phenomena both at corporate management and public policy levels.

Risk can be conceived as the failure to optimize economic performance caused by inability to deal effectively with environmental uncertainty and unexpected events. Societies and the organizations that operate within them will be hit harder from turbulent market conditions when potential risk factors and resulting exposures are ignored and insufficient precautions are made in advance. Risk awareness is, therefore, a first step towards reaping potential benefits from risk management. That is, if potential risk factors are recognized in advance, the element of uncertainty and surprise is vastly reduced. The more effort devoted to identify, understand, and counteract possible risk factors, the better inherent exposures can be managed. All the while, emergent threats and new market

conditions represent opportunities for change that can be exploited by responsive organizations. Hence, strategic risk management is more than trying to avoid downside losses but also relates to an ability to optimize performance outcomes by engaging in new activities that allow the organization to exploit opportunities arising from changing market conditions.

Strategic risk management incorporates contributions from different professional fields and academic disciplines, such as, finance, insurance, accounting, business policy, international business, disaster management etc. This illustrates a need for integrative analytical perspectives while recognizing that specialized expertise is needed to circumvent negative economic impacts from specific exposures. Some of the most developed risk management practices relate to the handling of market volatilities, credit exposures, and actuarial risks that constitute central elements of the financial industry. Many of these risk management techniques have gradually been transposed to other types of enterprise and extended to consider operational disruption and regulatory compliance issues within the context of enterprise-wide risk management frameworks. Dealing with these types of identifiable and measurable exposures is essential but organizations must also stand ready and prepare for the unexpected events since many strategic risks bound in economic, competitive, and political factors that are difficult to foresee and quantify but nonetheless constitute some of the most significant exposures (See Figure 1). Hence, there is a need to identify the organizational structures and strategic decision processes that can facilitate responsiveness to these types of risk.

Figure 1. Extending the Focus Towards Significant Strategic Risk Factors

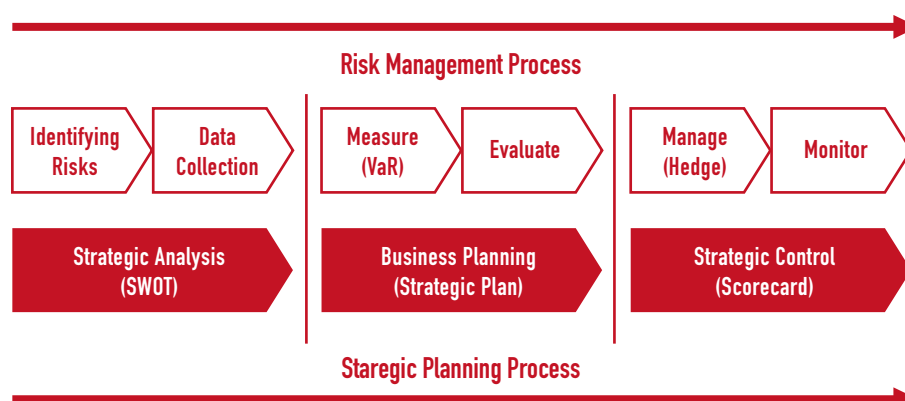


The formal risk management process starts with the identification of significant factors that expose economic activities not unlike analyses of strengths, weaknesses, opportunities, and threats (SWOT) in conventional strategy analysis. Once the risk factors are identified, the vulnerability to different types of risk is analyzed and potential economic effects determined. Stipulations of potential losses provide a basis for analyzing incremental benefits from risk mitigation efforts and assessing the need to cover excess exposures through alternative risk-transfer and financing arrangements. Formal risk management is an ongoing process comprised by sequential steps of risk identification, evaluation, hedging, and monitoring over time to keep abreast of new exposures. This normative description of risk management is generally recognized but we know less about how the handling of diverse exposures can be integrated within the strategic management process. However, the strategic planning process follows quite comparable steps of environmental analyses, formulation, and performance monitoring through strategic control (See Figure 2). In this context, it should be possible to integrate and coordinate the risk management and strategic planning processes. Nonetheless, while risk assessment and planning exercises

deal with observable phenomena, many important strategic risks are harder to quantify as they bound in human behavior, competitor moves, technology shifts, product innovation, political events, etc. The effective handling of such 'unknowable' risks cannot rely solely on formal controls but also depends on interactive strategic decision making and an ability to stay proactive by engaging in responsive actions.

So far, little effort has been devoted to outline the contours of these effective strategic risk management processes. Hence, a major purpose of a new research initiative (the Strategic Risk Management Project – SRMP, see insert below) has been to investigate proactive organizational risk management practices and identify the organizational characteristics associated with superior economic performance and risk management outcomes. Several inroads have been made to deal systematically with risks in more integrative ways. Over the past decade, the financial industry has developed quite sophisticated models to assess interacting influences of various market risks and stipulate associated exposures. The economic exposures of multinational enterprise have been analyzed based

Figure 2. Integrating Risk Management and Strategic Planning Processes



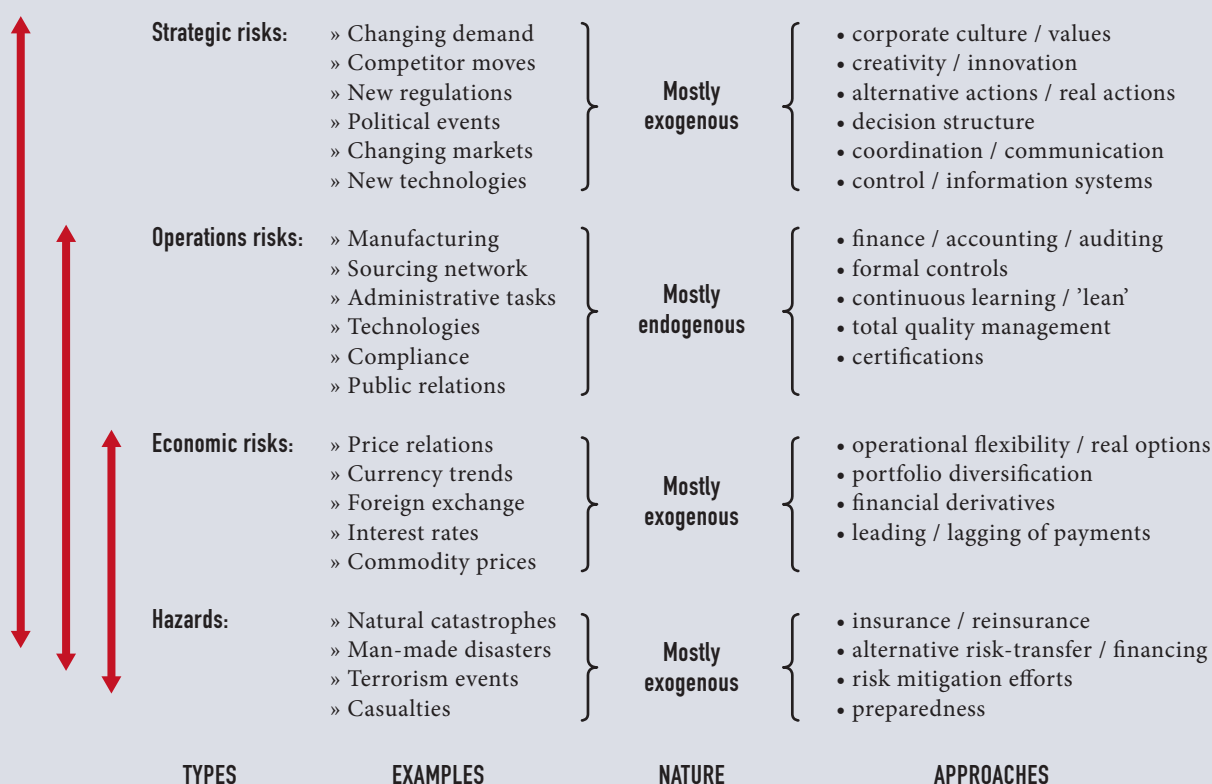
on the interaction of macroeconomic variables and simulation of future environmental and operational scenarios. These approaches are considered in enterprise-wide management models with the aim of incorporating a wider range of exposures in integrative risk analyses. However, the diversity of risk management practices spans from extremely data rich value-at-risk calculations of financial market exposures to more general assessments of opportunities and threats with relatively poor data support. They also reflect a high degree of specialization around the handling of specific risk exposures. Hence, a major challenge of strategic risk management relates to an ability of maintaining the necessary analytical expertise when handling specific exposures while integrating the various risk management aspects in overall strategic assessments.

There is a need to better understand how organizations operating in turbulent environments can deal effectively with major exposures where many different risk factors have relevance in the overall strategic considerations. Public policies influence the risk impacts by supporting preventive efforts and avoiding moral hazards in direct interventions. Corporate governance matters as boards shape risk awareness in organizations and impose monitoring practices. The leadership of top management affects the engagement of middle managers and employees and sets operational policies and reward systems that motivate and drive behaviors. Central elements of strategic management comprise risk management considerations in conjunction with mission statements, environmental analyses, contingency planning, and strategic controls. Strategic responsive-

ness is also influenced by organizational decision structures and the ability to absorb market intelligence while processing, communicating, and interpreting this information for adaptive purposes. Developing better insights into these more complex strategic risk management processes will improve the ability to deal effectively with the diverse risk factors that prevail under turbulent market conditions.

Initial findings from the research effort indicate that strategic risk management can limit the adverse effects of exogenous shocks and exploit opportunities arising in dynamic market environments. Hence, effective risk management allows corporations to increase economic returns and reduce performance risk at the same time. Organizational slack can induce corporate entrepreneurship and innovation, which in turn enhance proactive investment in opportunities supported by available financial resources. Hence, effective risk management practices and strategic response capabilities are essential for wealth creation under global market turbulence. Proactive behaviors should be encouraged to facilitate the creation and exploitation of new opportunities and avoid the downside losses associated with abrupt environmental changes whatever their causes. As this risk management scope is extended from conventional areas of insurable hazards, economic exposures, and operational risk to consider strategic exposures, such as, competitive developments, socio-political trends, and new technologies, other approaches to risk management increase in relevance (See Figure 3).

Figure 3. The Extended Scope of Strategic Risk Management



The treatment of firm-specific exposures may adopt real-options reasoning as a vehicle to identify, develop, and execute alternative strategic actions that increase flexibility, maneuverability, and responsiveness. Access to diverse resources, e.g., through multinational networking, may create global opportunities that expand strategic alternatives. Organizational structure becomes important, as decision making, motivation, and informal communication channels influence the ability to take responsive actions. All the while, planning, control, and information systems can enable coordination and drive economic efficiencies. In short, effective risk management practices build on more complex strategy making processes that integrate important exposures, provide flexibility for responsive actions, and maintain supportive planning and control mechanisms.

STRATEGIC RISK MANAGEMENT PROJECT (SRMP)

The global business environments are highly turbulent as innovations mold the competitive landscape, political events disrupt market conditions, and environmental hazards expose the economic infrastructure while financial markets are as erratic as ever. Under these circumstances firms must improve their strategic response capabilities to thrive. Important inroads have been made through the establishment of formal risk management practices initially geared to the financial industry but gradually extended into more general enterprise-wide approaches. But the risk management challenge goes beyond an ability to manage financial market risks and insurable hazards and corporate exposures often deal with more complex operational, competitive, and strategic risk factors that are hard to quantify. Hence, the major aim of this research effort is to provide new insights beyond the conventional scope of risk management and identify effective strategy processes that respond better to the new environmental reality.

This research program anchored with the Center for Strategic Management & Globalization at the Copenhagen Business School was initiated in December 2005 with economic support from AON Insurance, Ernst & Young, Nordea Bank, TDC, and Novozymes.

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Calendar

1 – 2 June 2007, Las Vegas, US

**ISTAS 2007 International Symposium on Technology and Society
– Risk, Vulnerability, Uncertainty, Technology and Society**

3 – 8 June 2007, Norfolk, Virginia, US

**ASFPF Annual Conference – Charting the Course:
New Perspectives in Floodplain Management.**

5 – 6 June 2007, London, UK

Airmic Annual Conference 2007

10 – 13 June 2007, Boston, US

**PRIMA Annual Conference – Risk Management Heard 'Round the
World**

10 – 13 June 2007, Boston, US

9th Annual AGRiP Pooling Track

10 – 15 June 2007, Smögen, Sweden

**2nd Valdoc Summer School – Transparency and Accountability
in Risk Governance & Societal Decision-making**

17 – 19 June 2007, Hague, the Netherlands

The SRA Europe Meeting: Building Bridges

25 – 27 June 2007, Stavanger, Norway

ESREL 2007 Safety and Reliability Conference

2 – 3 July 2007, Cardiff, Wales

ALARM Annual Conference

8 – 11 July 2007, Toronto, Canada

**Canadian Centre for Emergency Preparedness
World Conference on Disaster Management – Are You Feeling
the Heat?**

3 – 5 September 2007, Tylösand, Sweden

**European Transport Safety Council (ETSC) and the Swedish Road
Administration
Changing Lanes – Tylösand Road Safety Conference**

7 September 2007, Nottingham, UK

SRA Conference: Risk Perception: Current theories and debates

11 – 13 September 2007, Hatfield, UK

IRM Risk Forum 2007

30 September – October 3 2007, Geneva

**FERMA: Risk Management in Motion: Global Responsibility and
Sustainability**

22 – 23 November, 2007, Brussels, Belgium

PRIMO Europe Conference

Identify and manage risks!

– with EIRM's online introductory course in risk management.

For everyone with a professional interest in risk management, the EIRM Certificate in Risk Management (CRM) represents an excellent opportunity to learn more about modern risk management practices. In addition to introducing fundamental theory and principles, the course provides students with an understanding of the general risk management issues facing organizations today, both in the public and private sectors.

Since the course follows the principles of Enterprise Risk Management (ERM), students learn about the integrated management of risks ranging from fires and law suits, to investment, underwriting and price volatility, to political and social instability, to psychological perceptions and cultural values – but all presented at a basic and introductory level.

When you enroll in the online course, you also get access to EIRM's web library, which contains extensive knowledge on risk management gathered from all over the world.

For more information, go to <http://www.eirm.net/crm>

Book Review

Risk and Crisis Management in the Public Sector

By Lynn T. Drennan and Allan McConnell, Routledge, UK, 2005

Over the last decade or so there have been many examples of events which can fairly be labelled as crises – ranging from increasingly volatile weather patterns to the threat of global terrorism to dangers posed to public health. Particularly in western democracies a core function of government is to protect life and property and to uphold law and order. When a crisis emerges there is public expectation that government will intervene and manage that crisis. The public reaction to the Bush administration's slow response to the disaster post Katrina is a stark reminder to all public officials of the expectations of the general public, even in a society where government is less centralised.

Unfortunately, on many occasions the response of government – both at national and local levels – has been patchy and has given the impression of being an improvised response rather than a set of co-ordinated endeavours. *Risk and Crisis Management in the Public Sector* by Lynn T Drennan and Allan McConnell is a timely addition to the literature surrounding the management of risk.

The book falls into two parts – the first examining what is meant by risk and crisis, why organisations decide to manage risk, how risk is managed and how organisations respond to risk. The authors show an impressive mastery of the range of theories and approach to risk and its management and provide the reader with the tools to make sense of often conflicting approaches. I found the discussion of crisis and particularly the types of crisis extremely helpful in forming my views as to how a public organisation should frame its responses to each type of situation.

The second part of the book examines in detail the crisis management process – planning, managing the crisis and learning the lessons from the crisis. Readers are presented with a range of practical strategies to adopt which are easily adaptable for their own situation. The text is illustrated with real case studies which help the reader draw out the points under discussion and learn from the mistakes and successes of others.

The authors have an easy style and the book contains learning objectives and questions and discussion topics to reinforce the key messages of each chapter.

For better or worse planning for and reacting to crises is now at the forefront of public managers' thinking about their risks and exposures. Drennan and McConnell have provided them with a book which while it may not help them sleep soundly at night will give them the understanding and tools to develop a co-ordinated and effective response to a crisis. For this we can all be grateful.

Book Review by Martin Fone,

Principal – Public Sector, Charles Taylor Consulting plc

Book Shelf

Corporate Social Responsibility – Reconciling Aspiration with Application

By Andrew Kakabadse and Mette Morsing, Palgrave Macmillan, UK, 2006

Andrew Kakabadse and Mette Morsing discuss what corporate social responsibility (CSR) could be, how to communicate effectively the benefits of CSR initiatives, and how critical it is to have CSR on the corporate agenda--not to do so means CSR remains something "nice to have" rather than making the desired difference to our lives.

Organized Uncertainty – Designing a World of Risk Management

By Michael Power, Oxford University Press, UK, 2007

Since the mid-1990s, risk management has undergone a dramatic expansion in its reach and significance, being transformed from an aspect of management control to become a benchmark of good governance for banks, hospitals, schools, charities and many other organizations. Numerous standards for risk management practice have been produced by a variety of transnational organizations. While these many designs and blueprints are accompanied by ideals of enterprise, value production, and good governance, it is argued that the rise of risk management has also coincided with an intensification of auditing and control processes. The legalization and bureaucratization of organizational life has increased because risk management has created new demands for proof and evidence of action. In turn, these demands have generated new risks to reputation.

In short, this important book traces the rise of the managerial concept of risk and the different logics and values which underpin it, showing that it has much less to do with real dangers and opportunities than might be thought, and more to do with organizational accountability and legitimacy.

2007 Risk Management Resource Guide

Published by PERI, US, 2007

The 2007 Risk Management Resource Guide is now available in PERI's online bookstore. The 2007 Risk Management Resource Guide features 194 pages of information and training sources covering subjects ranging from benchmarking and performance management, disaster management and hazard mitigation, and workers' compensation and occupational therapy. In the publication is information on credentialing agencies; educational institutions offering degrees in emergency management, homeland security, and risk management; and relevant publications and publishers. Also detailed in the Resource Guide are sources for environmental liability, human resources and employment practices, risk financing and insurance, risk management, and safety and health.

<http://www.riskinstitute.org/peri>

Book details: Price: £19.99 or €29.28. To obtain a copy of the book at the price shown above (incorporating a 20% discount on the standard price), contact: Victoria.lincoln@tandf.co.uk

Web Library

Managing Large-Scale Risks in a New Era of Catastrophes

This report focuses on the role of insurance and other risk transfer mechanisms as well as hazard mitigation for managing catastrophic risks. It thus provides the foundation for undertaking Phase II of the study which will be completed in the next 9 months.

Using a large data set of residential exposure and property insurance coverage, our specific interest in 2007 is in developing and evaluating alternative insurance and mitigation programs involving the private and public sectors for tackling these issues so as to establish long-term sustainable solutions for providing protection against financial losses and reducing risks from hurricanes and floods on the key stakeholders.

NB! This is the first phase of a 2-phase study and, therefore, not final findings.

<http://www.eirm.dk/oak.jsp?id=24825>

Accounting, Hybrids and the Management of Risk

This essay addresses the implications of accounting and hybrids for the management of risk. It suggests that the management of organizations is rapidly being transformed into and formalized around the management of risk, while much of the real management of risks occurs elsewhere. We argue firstly and most generally that hybrids in all their varied forms are one of the key sites where uncertainty is managed beyond the formalized practices of risk management. Secondly, we argue that the management literature on hybrids has been too focused on organizational forms, and has neglected the hybrid practices, processes and expertises that make possible lateral information flows and cooperation across the boundaries of organizations and firms. Thirdly, we argue that accounting practices are central to these issues, yet these practices are often neglected by the wider management and organizational literatures. Accounting, we suggest, is constantly engaged in a dual hybridization process: seeking to make visible and calculable the hybrids that it encounters, while at the same time hybridizing itself through encounters with a range of other disciplines. We address these issues in three stages. In the first section, we draw attention to the key disciplines that have 'discovered' hybrids, albeit at different times and in differing ways. In the second section, some selected examples of hybrid practices, processes and expertises are identified and briefly discussed. In the third section, and in conclusion, the implications of accounting and hybrids for the management of risk are considered.

<http://www.eirm.net/oak.jsp?id=24830>

European Regulatory Risk Awareness Survey 2007

As part of an overall risk strategy, it is essential that a business is aware of its regulatory environment. At DLA Piper, we work closely with our clients to help them understand their regulatory obligations so they can stay compliant and remain in control. In Europe, governments are under pressure to update and standardise regula-

tory controls and to take an aggressive stance on enforcement. The first step towards implementing an effective corporate response is to identify areas of confusion and misunderstanding.

<http://www.eirm.net/oak.jsp?id=24835>

Risk, Responsibility and Regulation – Whose risk is it anyway?

The relationship between risk, responsibility and regulation is rapidly emerging as an important theme of policy development. In it lies great opportunity, not only to reduce dramatically the burdens of regulation on society but also to reinforce national qualities of self-reliance, resilience and a spirit of adventure. But there is also a danger that if the relationship is unbalanced, we slip into a cycle of increased regulation to meet the demands of increased risk aversion. In this report, the Better Regulation Commission (BRC) is looking at the dynamics which have been created by the perception and communication of risk by policy makers, the media and each of us as individuals in society. In so doing, we are responding to concerns expressed from many quarters ranging from the Prime Minister in his speech to the Institute for Public Policy Research (May 2005) to, most recently, the Health and Safety Commission in their plea for us to 'get a life'.

<http://www.eirm.net/oak.jsp?id=24840>

Living with risk: Promoting better public space design

Over-sensitivity to risk can have a profound effect on the quality of public space. It can restrict innovation, leading to more standardised designs and less interesting places.

The study, Living with risk: promoting better public space design, focuses on three issues:

- What pressures are driving the greater emphasis on minimising risk in public space design and what is helping steer organisations towards a more proportionate approach?
- How does risk impact on the different stages of the design process and how do professionals, clients and other stakeholders respond to this?
- What are the implications for the quality of public space in the future?

We explore views from national organisations concerned with risk and public space, while 10 case studies of public space schemes help establish how consideration of risk impacts on the different stages of the design process and the implications for the choices of professionals, clients and the public.

<http://www.eirm.net/oak.jsp?id=24892>

EIRM – a Resource Centre and Network for Risk Management

By Malene Mouritze Marfelt, Communications Officer at the EIRM



Based in Copenhagen, Denmark, the European Institute for Risk Management (EIRM) is a network that collects, produces and disseminates knowledge about risk management. The EIRM addresses public, private and non-profit risk management issues from both a strategic/policy perspective as well as from a practical managerial view.

In collaboration with leading organisations and universities worldwide, as well as a number of recognised risk management experts, the EIRM provides members with access to the most current developments in the field and with an opportunity to connect into the global risk management community.

The majority of current EIRM members work either for the public sectors in Denmark, Norway and Ireland, or for medical, media, consultancy, accountancy and insurance industries in Europe. Their typical professional roles would be as chief executives, risk managers, communications directors, HR managers, safety and emergency professionals, project managers and academicians.

The EIRM provides services in four areas:

- 1) Educational Programming, including seminars, workshops and the Online Certificate in Risk Management
- 2) Risk Communications through country-specific newsletters and the global online magazine – Public Risk Forum (PRF)
- 3) Information Management through the EIRM Web Library
- 4) Community Building through initiatives like PRIMO

Educational Programming

Each year the EIRM is involved in a range of training seminars, educational workshops and executive information sessions all geared towards advancing risk management knowledge. Additionally, the

EIRM recently has created an online course geared towards an introduction to risk management—the Certificate.

Certificate in Risk Management

EIRM members are offered access to an international online course in risk management - the EIRM Certificate in Risk Management (CRM). The online course is introductory in nature and is geared for everyone with a professional interest in risk management. Students are given information on both principles and practices of risk management, and successful completion of the course should give students confidence that they have a solid introductory understanding of modern risk management.

The online course consists of five subject areas (Principle of Risk, Risk Assessment, Risk Control, Risk Financing and Risk Management Programme Administration). Students demonstrate their knowledge by successfully completing multiple-choice examinations in each area and will hereafter receive their certificate.

“...the recent addition of Public Risk Forum highlights the EIRM’s commitment to serve a global risk management community”

Risk Communications

The EIRM fosters communication among risk management communities through newsletters and other media. Notably, the recent addition of Public Risk Forum highlights EIRM's commitment to serve a global risk management community.

Public Risk Forum (PRF)

EIRM's online magazine 'Public Risk Forum' is a quarterly publication that currently reaches over 60,000 readers around the world. PRF serves as a global forum for the exchange of public sector risk management knowledge and information. Within each issue of PRF, readers will find a wide range of articles, information, and announcements pertaining to the most important public risk management issues of the day.

Information Management

EIRM's historic role has been as an organiser and manager of risk management information. Its main vehicle for dissemination of this information has been—and continues to be—the web library.

Web library

Members of the EIRM have access to the EIRM's large online library, which contains worldwide information on risk management. Through reports, analysis, manuals, cases, reviews, etc. our members are constantly updated on the most recent knowledge about risk management.

Read more about the EIRM at www.eirm.net

Community Building

One of EIRM's most challenging initiatives has been the creation of actual risk management "communities," which exist to foster and advance interest in risk management. The best current example of EIRM's community building activities is PRIMO.

PRIMO Europe

The EIRM is one of the founders of PRIMO Europe. The initiative behind PRIMO Europe is the result of a collaboration with UDITE (the Union of Local Authority Chief Executives of Europe), which began in 2005.

The EIRM supports PRIMO Europe with knowledge about risk management. PRIMO Europe members have via the EIRM access to the EIRM Certificate in Risk Management, the quarterly newsletter on risk management (PRF) and our online library.

Additionally, the EIRM supports PRIMO Europe through management of the pan-European annual conference, this year held in Brussels on 22 - 23 November 2007. PRIMO Europe is geared towards executive perspectives on public risk management issues, and the upcoming conference will invite international risk management experts to speak on issues pertaining to risk leadership and policy.

Thus far the PRIMO Europe initiative has resulted in the creation of national PRIMO chapters in Denmark, Sweden, the Netherlands, France and Belgium. Malta, Cyprus, Spain and Portugal chapters are about to be established.

Read more about PRIMO Europe at www.primoeurope.org

PRIMO Denmark

Illustrative of the nation-specific PRIMO activities is PRIMO Denmark. EIRM functions as the daily secretariat for PRIMO Denmark.

PRIMO Denmark was one of the first national PRIMO chapters to be established (in 2005) and is today a recognised risk management organisation with more than 600 individual members from the majority of Danish municipalities and other public organisations.

The first large PRIMO Denmark project was completed in January 2007. Together with members and private partners, the organisation launched a national guide to risk management. The guide includes five important recommendations and has been endorsed by The Minister for the Interior and Health. Today, the guide is seen as PRIMO Denmark's referential product and is used by several governmental organisations. PRIMO Denmark's national conference in June 2007 is organised around the implementation of the guide's recommendations.

PRIMO Denmark is supported by 18 large private service companies, which all contribute to the advancement of risk management in Denmark.

Read more about PRIMO Denmark at www.primodanmark.dk

To join the EIRM Network, go to our web site, www.eirm.net

