StrategicRISK
Risk and corporate governance intelligence

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WHAT WE DO IN THE SHADOWS ›

Behind the upstanding image portrayed by a company's published values may lie much less desirable traits. These risks won't show up on any register – so how do you bring them to light?

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Contents

#ChangingRisk: The revolution forges on > P21

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Keep calm and… move on?

As a risk manager, you aim to think inside and outside of every box. But we all know what they say about best-laid plans. What defines us is how quickly and smartly we adapt to inevitable changes. So here's to another year of thinking on our feet. See you there!

It has been two years since I took the reins of the editorship for *StrategicRISK* in Asia Pacific. As I wrote my first leader in late 2017, perched atop a tea chest filled with books and DVDs, my walls covered from top to bottom with to-do lists and enough paperwork to overwhelm even the most seasoned auditor, the aim was to get my two-legged and four-legged family and a decade's worth of possessions from London to Sydney, and make the Australia city our forever home.

I had 'The Big Move' perfectly planned and under control. What could possibly go wrong?

As I write this leader, I am preparing to do this whole move in reverse. Yes, you read that correctly: just two years later, I am once again preparing to move my entire two-legged and four-legged family (the original three dogs, plus an extra large rescue dog with the dubious penchant for eating socks and rugs, and an additional two cats) now from Sydney back to London. You might be wondering if I have genuinely lost my mind.

In truth, it was those darned plans going astray. Despite holding more than a decade of international commodities trading experience, my husband was unable to find work in his industry in Sydney. You see, we planned every aspect of my job, my son's schooling, two home rentals (London and Sydney), banking, all those pets, you name it – I planned and executed everything to perfection.

Unfortunately, what I could not plan for, and what was entirely beyond my control, was the lack of commodities trading in Sydney. The irony that Australia is known globally for its mining and commodities but has virtually no local commodities trading is not lost on me.

He is now happily employed with an Australian bank in a London-based risk management role (I know, more irony) and we are once again packing up and moving on.

What has been the most curious part of all of this is the reactions when telling people we are again moving. We have been met with repeated cries: "But that wasn't the plan!" and "Why did you move all the way there if you are just going to move back?"

Well that, my readers, is something we can all learn from, but is something you likely already understand well. You can make all the plans in the world. You can risk register, heat map, evaluate, mitigate, manage, Bow-Tie analyse, Monte Carlo scenario yourselves until your fingers bleed, but that may not stop fate intervening in the most inconvenient way possible, throwing all your predictions and plans to the wind.

What will define you as a risk manager is how you handle the situation when things don't go to plan. Moreover, what will mark you as an excellent risk manager is your ability to take repeated changes of plans and still stay calm.

Ralph Ellison wrote in his modern parable novel *The Invisible Man*: "Life is to be lived, not controlled; and humanity is won by continuing to play in face of certain defeat." When control is lost to fate, fortune hands you an opportunity to make a new plan.

Whether that plan is what you had in mind is uncertain but, for me, embracing life in the UK once more will give me a chance to make new plans. Maybe even ones that stick this time.

"YOU CAN MITIGATE AND MANAGE UNTIL YOUR FINGERS BLEED, BUT THAT MAY NOT STOP FATE INTERVENING IN THE MOST INCONVENIENT WAY POSSIBLE, THROWING ALL YOUR PREDICTIONS AND PLANS TO THE WIND."

On a bear hunt

As some market experts report hearing the distant, but undoubtedly chilling, growls of an approaching global downturn, we ask how much risk managers can really do to protect their businesses from being savaged.

It is now more than 11 years since Lehman Brothers bankers packed their belongings into cardboard boxes and left their Wall Street offices for the last time. September 2008 saw the collapse of the US investment banking institution that marked the onset of the Global Financial Crisis and Great Recession, the worst global economic downturn since the Great Depression of 1929.

From Singapore to Sydney and London to Lisbon, no global economy was immune from the effects of the global financial crisis, sparked by the collapse of the US subprime mortgage market. Credit was withdrawn overnight, and global economies turned to monetary and fiscal stimuli to prevent a full-scale economic collapse.

Banking crises in Iceland, Ireland, Portugal and Britain echoed the turmoil seen in the US, as governments grappled with falling house prices and damaged consumer confidence.

Eleven years on from the biggest economic crisis in our lifetimes, there are fears another global downturn could be around the corner. Months ago in the US, an inverted bond yield curve, a key indicator for an imminent recession, caused market experts to ring the alarm.

The yield curve has since returned to normal, but recent market activity indicates investors are skittish about the prospect of the global economy. There is a looming feeling we are approaching the end of the upturn.

A WORLD IN TURMOIL

While it hard for economists to pinpoint the date or year of the next downturn, global organisations have begun to raise concerns about a combination of geopolitical and economic factors. Rating agency Moody's has highlighted fears of rising political instability and a fragile global economy heading into 2020. It says the global economy is on track to record the lowest level of growth since 2009. It does not, however, believe we will enter recession in 2020.

In a November 2019 note, Elena Duggar, Moody's associate managing director, said: "Growth in advanced economies will slow toward potential as labour markets continue to tighten, while growth in many emerging market countries will be below

"GLOBAL GROWTH IS SLOWING. THE WORLD ECONOMY NOW LOOKS EVEN WEAKER THAN THE BANK'S JUNE FORECAST FOR 2.6% GROWTH IN 2019, HURT BY BREXIT, EUROPE'S RECESSION AND TRADE UNCERTAINTY."

President, World Bank
David Malpass

average as a result of China's slowdown and as global trade growth grinds to a halt."

Moody's believes rising trade tensions between the US and China, and Britain's exit from the EU, will exacerbate wider problems in the global economy: "Risks will centre around US-China trade disputes, Brexit-related uncertainty and the escalation of other bilateral disputes. At the sector level, spillover effects from trade frictions will drive shifts in global supply chains and weigh on investment decisions."

And fears of another global downturn extend beyond the US and Europe. Investment banking giant JP Morgan's recent survey of Asia-Pacific chief financial officers found a global recession was the main risk for their business over the next six to 12 months. A total of 30% of the 150 respondents from 130 corporations said a global recession was their top risk, 27% pointed to the impact of global trade tariffs, and 24% said an emerging markets slowdown was their top concern.

US economists predict the world's biggest economy will enter recession by 2021 – a survey conducted in August by the National Association for Business Economists found 72% of leading economists believe the US will slide into a downturn within two years. About 38% of economists expect a recession next year.

The International Monetary Fund (IMF) is more bullish on the global economy's near-term prospects. It is "far" from forecasting a global recession, but has cut the world's forecast for growth in 2019 and 2020, due to the "negative impact" of the US-China trade war and increased protectionism. The IMF warns that when the next recession comes around, central banks will have little room to manoeuvre, as they have already cut interest rates to record lows.

The World Bank, on the other hand, warns of "substantial risks" to the global economy. It forecasts weaker-than-expected 2.6% growth during 2019, and says "economic momentum remains weak". Growth will slow in both developed and emerging economies through next year, the World Bank says, with softness in trade and domestic demand.

"Global growth is slowing," World Bank president David Malpass said in a speech in October. "The world economy now looks even weaker than the bank's June forecast for 2.6% growth in 2019, hurt by Brexit, Europe's recession and trade uncertainty."

FOREWARNED IS FOREARMED

As risk managers across the globe watch financial markets for the next big risk indicators, how can risk teams prepare their organisation for a global economic downturn? What role should risk managers play in protecting their business, and can anything really be done? *StrategicRisk* spoke with some of the world's leading risk managers to get their views on how to tackle recession risk.

Eamonn Cunningham, an independent risk consultant, was the chief risk officer for shopping mall group Westfield when the 2008 crisis hit. With operations in the US, UK and Australasia, the company was directly impacted by reduced spending as consumers tightened their belts in the wake of the crisis.

"FOREWARNED IS FOREARMED. IT'S AMAZING WHAT DEGREE OF CONTROL YOU CAN HAVE. YOU WON'T BE ABLE TO INFLUENCE MACROECONOMIC POLICY, BUT THERE ARE THINGS YOU CAN DO."

Independent risk consultant
Eamonn Cunningham

Cunningham, who is now based in Australia, says it can be difficult to predict the outcome for your business, and organisations should consider all eventualities when considering the impact of a recession.

"In the retail landscape, you would think customers would have reduced spending on luxury goods, and the more expensive stuff. You would expect discount brands to be more resilient. However, the opposite happened, and the high-end proved more resilient, at least in the initial period after the recession hit. The message here is, you have to check the facts and not assume."

Cunningham says risk managers can help guard their company against the risk of recession by having a "robust" enterprise risk management (ERM) system in place. "That needs to cover all areas of enterprise activity, at the strategic decision-making level. If you're just employing ERM for the operational stuff, you're going to be caught short if we have a major market-changing event like the 2008 recession."

Cunningham says risk managers should regularly test their ERM processes to ensure they can withstand a major economic event.

"You might have a robust ERM system, and it might go from boardroom to factory floor, but unless you're stress testing it, and have a regular regime of robust scenario planning, you're not testing the ERM system to ensure it will deliver as intended.

"What we found was, testing needs to be sophisticated so that it also considers the impact of multiple factors that may cause an adverse impact.

GREAT RECESSION: BY THE NUMBERS

10.1%
Peak level of unemployment in the US after the recession

$400bn
Greek national debt in 2010

127%
household debt compared to income in the US, 2007

4,485
In Q1 of 2008, credit rating agencies downgraded more than 4,000 collateralised debt obligations

41%
House price drop in Ireland following the crisis

20%
Subprime mortgage lending as a proportion of overall US lending, 2004-2006

$787bn
Stimulus package delivered by the US government as part of the American Recovery and Reinvestment Act

£500bn
Bank rescue package unveiled by the UK government in October 2008

-1
Australia bucked the global trend by avoiding recession, only suffering one quarter of negative growth

You have to look at areas that are highly correlated. So 'A' might have an impact of 1, 'B' might have an impact of 1, but together they might have an impact of 3."

Cunningham believes risk managers can help their organisations guard against the risk of recession by highlighting the potential effects and helping companies consider strategic changes, such as which markets to remain in, which products to sell or which currencies to move into.

"Some [risk managers] may feel they have no ability to influence the outcome, but I always refer to the old adage, which is, 'forewarned is forearmed'. If you've done the homework and identified it as an issue, and get that message through, that is something."

"If it is on the register and decision-makers see it as a risk, they might think they can impact it by 2% or 5%. It's amazing what degree of control you can have. You won't be able to influence macroeconomic policy, but there are things you can do."

He says it is important for risk teams to "position yourselves so that when you speak, all the relevant people listen". "You may be coming to the table with a dire warning, so you need to come with facts and back up what you say."

Risk managers should not underestimate the impact they can have in preparing for major global events, he says.

"Any risk manager worth their salt shouldn't just throw their hands up and say there's nothing we can do about it. It's even worse to leave it off your company's risk register. You must put it on. There must be a grown-up debate on what can be done, even if you don't think anything can be done. Don't accept the premise there's zero that can be done. Knowledge is power, and forewarning is useful."

"IN THE UK, THE MOST OBVIOUS TRIGGER EVENT WILL BE BREXIT. IT COULD HAVE A SEVERE DIRECT EFFECT ON THE UK AND EUROPEAN ECONOMIES, WHICH COULD TRIGGER THE NEXT GLOBAL RECESSION."

Founder,
GOAT Risk Solutions
Danny Wong

GO BEYOND YOUR IMAGINATION

Danny Wong, the founder of GOAT Risk Solutions, a UK-based risk management business, says the UK has struggled to recover during the Great Recession.

"Although the credit crunch of 2007–09 originated in the US, the impact in the UK was far-reaching. The collapse of Northern Rock, the government bailout of HBOS, liquidity in the markets collapsed, equity market plummeted, interest rates dropped, and governments pumped money into the financial system through quantitative easing, house prices collapsed, millions of jobs were lost, and the value of sterling has never recovered – all indicate its lasting effects."

Wong says macro-economic risks "are ones that could have a significant impact on the business but are almost entirely out of our control".

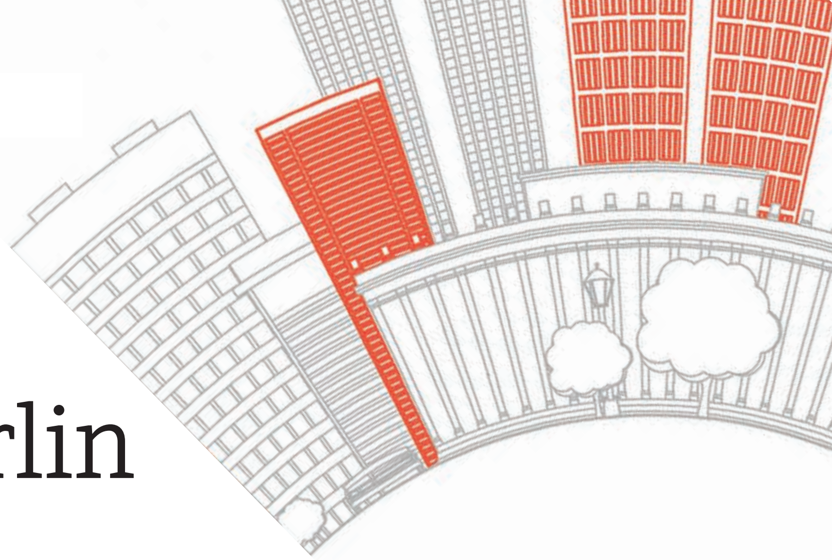
He adds: "As a risk manager, we can still help the business walk through the scenario, ensuring that we are as resilient to economic shocks as possible. This might mean introducing policies to hold cash, reduce investment capital and spending, cut costs, reduce financial commitments and secure access to credit. The important thing is to monitor and manage cashflows, communicate expectations, have plans of different levers to pull and at what point. These aspects are all wholly within our control."

Wong believes Brexit poses the biggest risk to a recession in his home market. "In the UK, the most obvious trigger event will be Brexit, which has been looming since the 2016 referendum. Brexit could have a severe direct effect on the UK and European economies, which could trigger the next global recession."

Wong says risk managers learned a valuable lesson in the Great Recession: that events "could be longer and have more far-reaching effects than imaginable".

He added: "We really shouldn't have been surprised if we stepped away from it and used some common sense – we should now be able to see bubbles from a mile away. We must not be complacent."

We need to pay attention to the systemic or macro-risks. It's not just relative to your competitors; it could permanently affect entire sectors. It will happen again." **SR**



Word from Berlin

In November, hundreds of risk professionals gathered at the Ferma conference to discuss its theme: 'Entering a new dimension in risk'. The overarching message was clear – if we want to build a more advanced, more sustainable future, reform and collaboration is needed. And the risk manager must be at the forefront.

"WHAT IS NEEDED IN THE COMING YEARS IS REFORM OF THIS EU, OR IT WILL DISAPPEAR."

GUY VERHOFSTADT

MEP AND FORMER PRIME MINISTER OF BELGIUM

The European Union is in grave danger of further countries leaving the block unless it can reform – and quickly, says Guy Verhofstadt, MEP.

You only need to look at the European response to the 2008 financial crisis, he said, and compare it with the US response to see why the EU needs to make significant changes to how it operates in order to survive.

"You have to ask yourself: How is it possible that America can act in nine months and launch a huge programme worth about $2.5 trillion, but after nine years, we are still discussing the banking union, the redemption fund and whether we need quantitative easing in Europe, and we are still infighting? We are certainly not prepared for the next financial crisis."

He argues that if the EU is still operating under the same model in just five years' time, we will hear renewed calls from members states who want to break up the union and leave the European project as a whole.

"Why? Because to be honest, this EU is always acting too little, too late. This union is not capable of preventing or preparing us for the next financial crisis. This union is not capable of solving the migration crisis. It is weak concerning foreign diplomacy, foreign affairs and defence matters. What is needed in the coming years is reform of the EU or it will disappear."

UNANIMITY STOPS US MOVING FORWARD

In particular, Verhofstadt says that the unanimity rules that the EU operates under need to be revolutionised, so that the European parliament can make decisions by a majority rather than only when every single member state is in agreement.

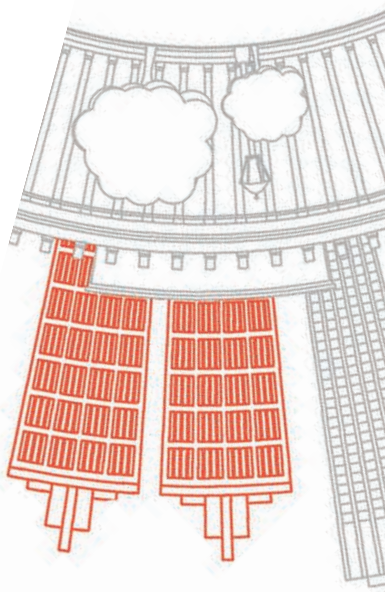
He says that currently the system is stifling innovation and forcing the tech sector and energy industry to move to other markets – the internal market is not fit for purpose and ignores 35% of goods and services. "The German market is limited to a number of classical industrial goods and services, but not the services of the future. And the consequences are devastating."

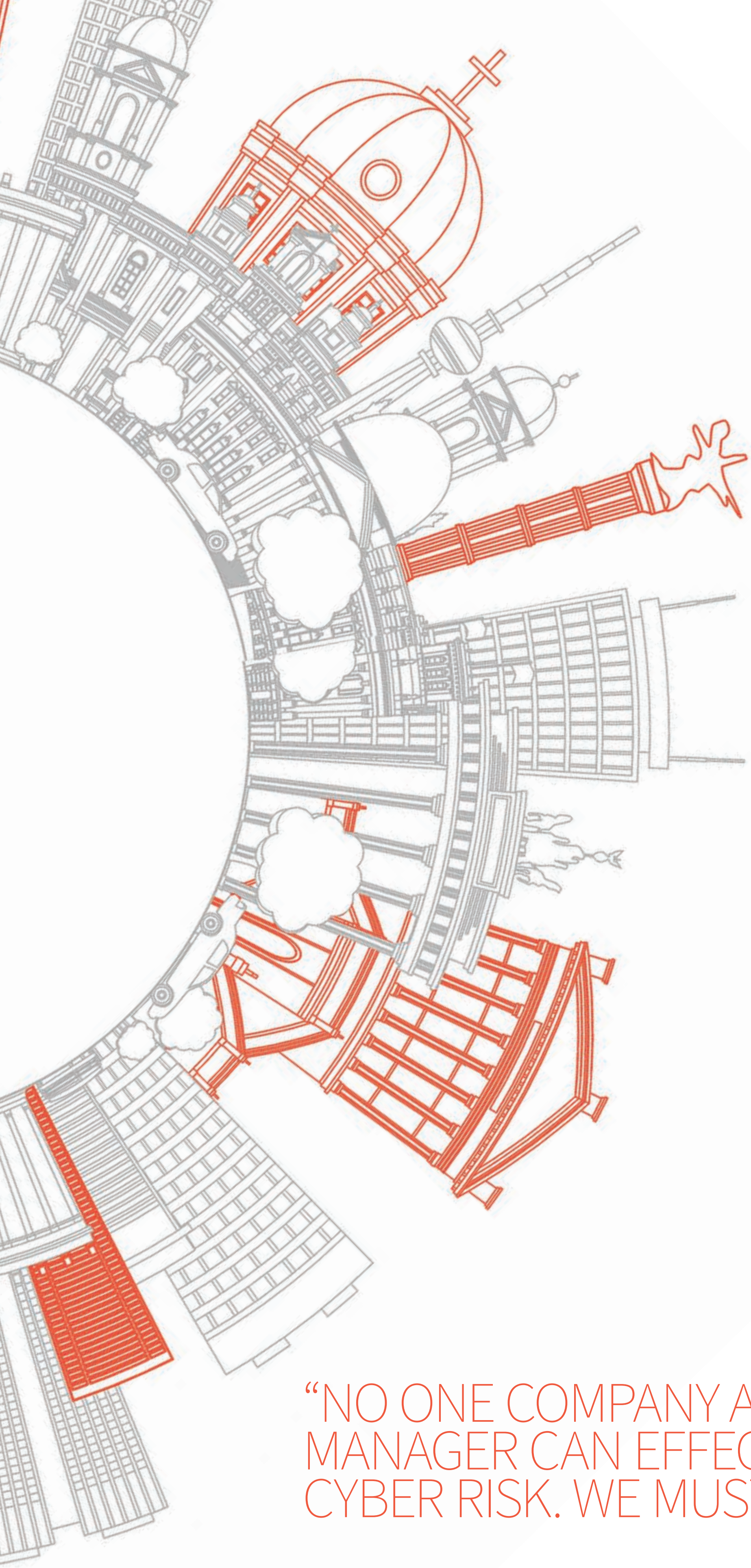
He points to Spotify's US launch as an example of the failings of the current system. To launch Spotify (a Swedish company) across Europe requires 28 identical authorisations and contracts with 130 mobile operators, but in the US it needed just one authorisation from the SCC and deals with three networks.

As well as hating innovation, Verhofstadt says that unanimity rules are responsible for the failure to prepare for the next financial crisis, the failure to solve the Greek debt problem and the reason we cannot reform the Dublin system, which deals with migration.

As well as removing unanimity, he is also calling for the way the EU is funded to be transformed so that the budget is financed by citizens and corporations rather than by member state contributions.

He concludes: "I hear people say that Europe is too diverse, there are too many languages and there too many differences. This is not true. Going from the Atlantic to the Volga, you will see the same architecture, literature, languages, traditions – we have to combine and co-operate. If we do it, we will succeed, and we will have our place between the empires of the world. But if we don't, then Brexit will be followed by other exits."





ALEXANDER MAHNKE

PRESIDENT OF GVNW, THE GERMAN RISK MANAGEMENT ASSOCIATION

In our technologically advanced and hyper-connected business world, “cyber risk is not going to go away”. This was the stern warning from Alexander Mahnke, president of GVNW, the German risk management association.

Speaking to *StrategicRISK* moments before taking his seat on the panel ‘Can partnership with cyber regulatory agencies help strengthen cyber resilience?’ Mahnke argued that insurance is secondary to proactive risk prevention and management.

Contrary to the complaints from some risk managers that conversations with brokers about cyber risks focus far too much on insurance as a solution, Mahnke argues that insurers and brokers agree that risk management comes first.

“When insurers and brokers talk to the clients, they don’t want to talk about insurance, they want to talk about risk. They understand this – and this is the right approach,” he says. “Managing the risk is not about insurance. It’s about understanding the risk and finding ways to be resilient against it. And only then does insurance become part of the discussion.”

LISTEN TO EACH OTHER

Compared to other classes of insurance, cyber insurance propositions are relatively limited, Mahnke explains. And as technology continues to evolve, the key to managing its risks is through stakeholder collaboration.

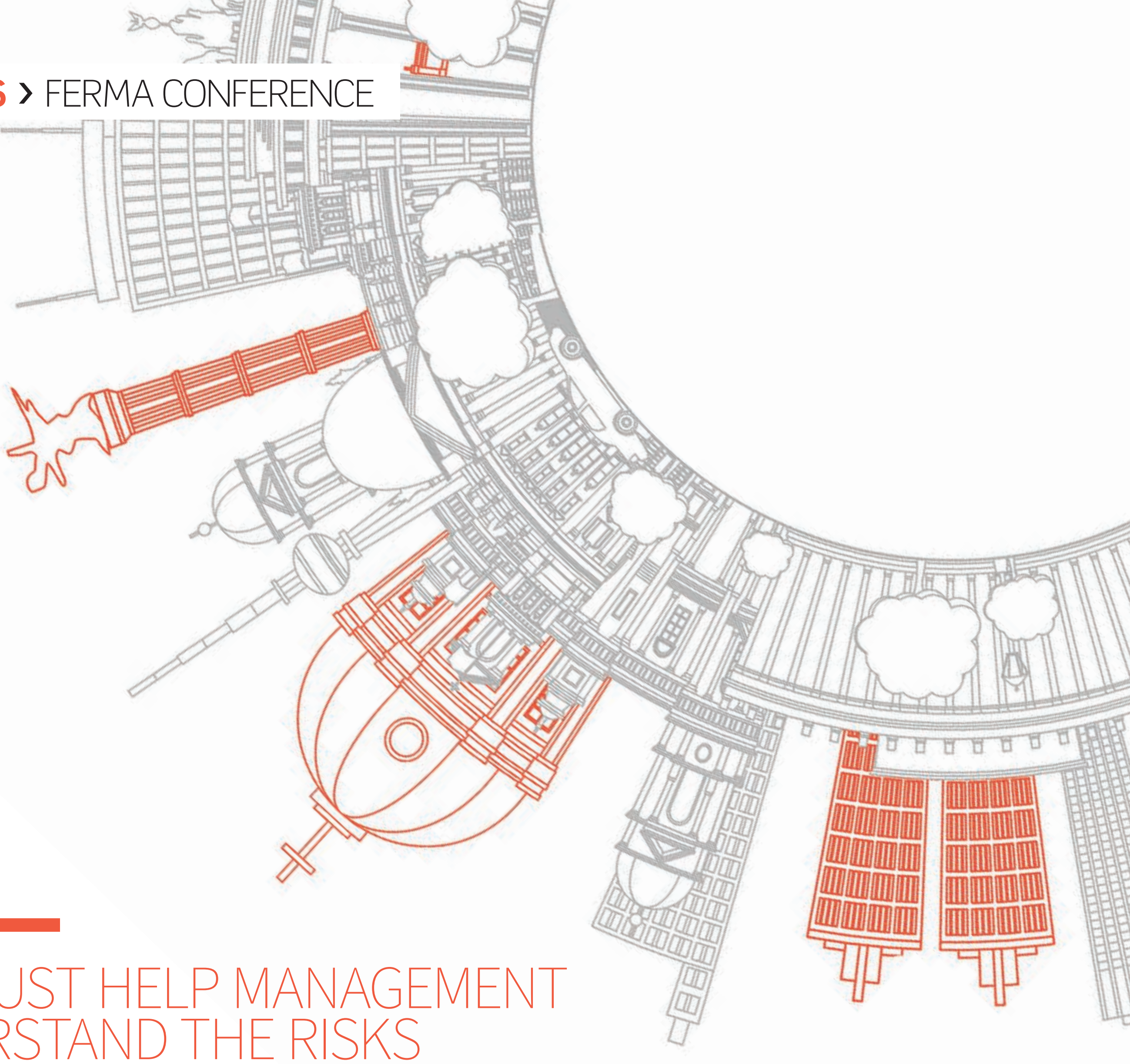
“It is of the utmost importance that all stakeholders understand their role in preventing and managing cyber risks. There will always be more than one stakeholder partner involved in a cyber risk assessment. This does not involve the insurance or ERM departments only – legal, IT and IT security and other stakeholders will need to work together. They all have a stake in protecting the company and must communicate to effectively assess the risks, quantify them and then – together – decide what needs to be done.”

This collaboration extends beyond internal stakeholders, he says. Third-party organisations and associations, insurers and brokers must come together to tackle the complex and constantly changing risk.

He points to initiatives such as the Charter of Trust – initiated by Siemens – as examples of industry players partnering to better understand and manage cyber risks.

> “NO ONE COMPANY AND NO ONE RISK MANAGER CAN EFFECTIVELY MANAGE CYBER RISK. WE MUST WORK TOGETHER.”

He concludes: “It’s such a complex risk that no one company and no one risk manager will be able to effectively manage it on their own. It’s a societal issue and we must work together.”



"WE MUST HELP MANAGEMENT UNDERSTAND THE RISKS OF NOT ADOPTING A CLEAR SUSTAINABILITY STRATEGY."

VALENTINA PADUANO

CHIEF RISK OFFICER AND SUSTAINABILITY DIRECTOR, SOGEFI GROUP

The most common mistake made by management in respect of corporate social responsibility is misjudging how much time we have and postponing decisions, warns Valentina Paduano, chief risk officer & sustainability director at Sogefi Group.

Speaking to *StrategicRISK* before taking her seat on the panel debate 'How can risk management help business build a sustainable economy?', Paduano said: "Often, sustainability risks have a long time-horizon of occurrence, outside the scope of the business plan. The common mistake made by the management is thinking they have a lot of time to manage these risks and so they postpone any decisions."

But sustainability can help drive up business profitability and create value, she argues. "Business is focused on profitability. Sustainability is everything that can increase profitability – usually by enhancing the brand reputation," she says.

The environmental and societal benefits must also be considered seriously by business. Christopher Palm, chief risk advisor to the IRMSA, who also spoke on the sustainability panel, told *StrategicRISK*: "South Africa is particularly vulnerable to the physical impacts of climate change, especially droughts and increased temperatures. A strategic risk process is essential in identifying these integrated problems and defining appropriate solutions."

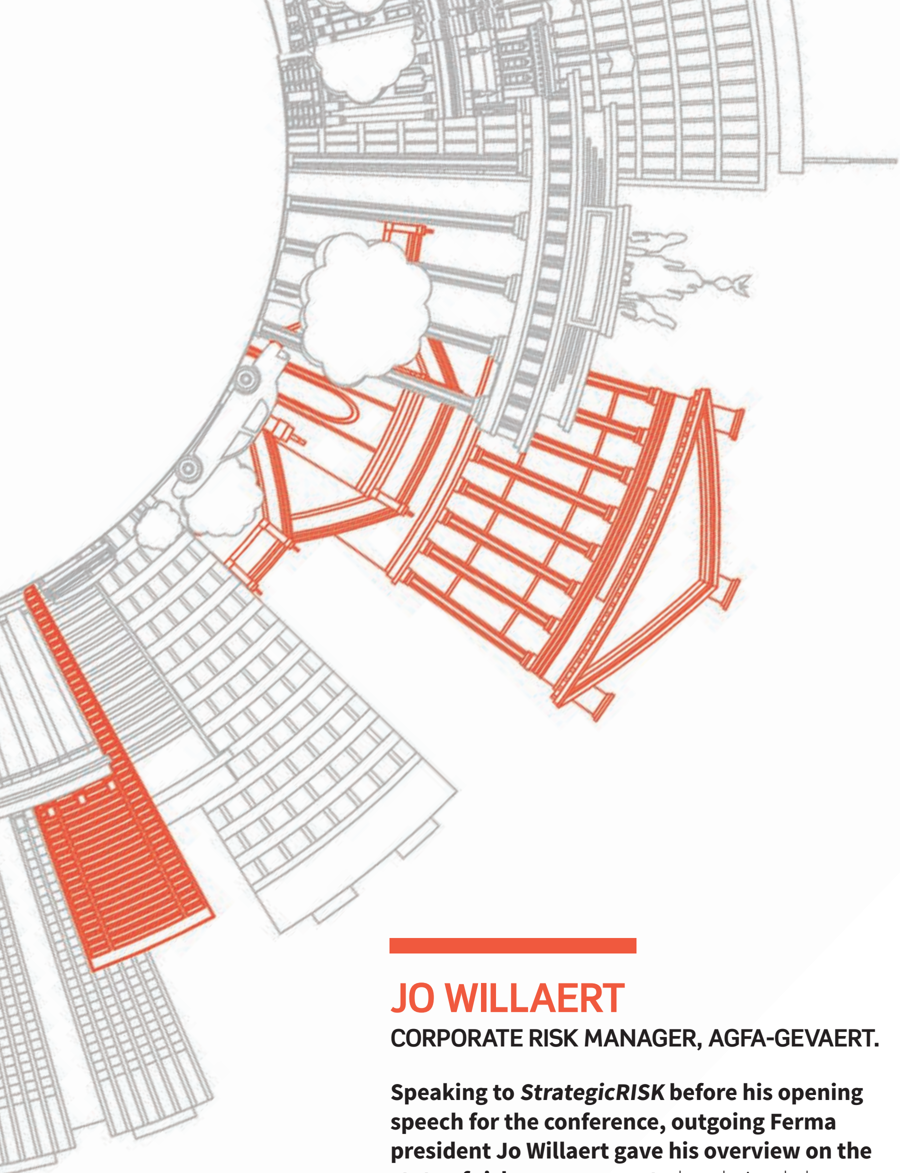
"It requires being proactive and developing solutions that ensure security of supply through appropriate investment, but that also minimise socio-economic implications and protect the poor."

SHOW SUSTAINABILITY'S VALUE

Paduano says risk managers have a key role to play in that they must help "top management understand the risks of not adopting a clear strategy on sustainability".

"Sustainability is mainly a 'compliance' activity, so it is very difficult to add value for the business. If sustainability is managed as well as other business activities, it will be easier to provide a concrete response to the new market and regulatory trends."

"The challenge is to focus the discussion on pragmatic and concrete effects on the business to keep the attention of the top management," says Paduano.



JO WILLAERT

CORPORATE RISK MANAGER, AGFA-GEVAERT.

Speaking to *StrategicRISK* before his opening speech for the conference, outgoing Ferma president Jo Willaert gave his overview on the state of risk management: that their role has elevated in importance but they must get to grips with complex risks.

The role of the risk manager is growing ever-more crucial because of today's shifting risk landscape, he said. That means that risk managers must get to grips with today's complex risks, namely technology threats and climate change.

> "TODAY, THERE ARE RISKS OF AN UNKNOWN MAGNITUDE AND IMPACT. RISK MANAGERS HAVE NEVER BEEN AS CRUCIAL AS THEY ARE NOW."

He says: "In the past decade, there have been a lot of dramatic changes, particularly in respect of communications and the internet, but we had some experience to guide us in how to deal with them. Today, there are risks of an unknown magnitude and impact. For every company and to every chief executive or board, risk managers have never been as crucial as they are now."

NO LONGER SCI-FI

Willaert highlights two topics that are, or should be, at the forefront of interest for many risk managers: digital transformation and sustainability.

He says: "Digitalisation is much more than cyber risks, where we see risk management becoming formalised. Digitalisation and the development of AI, combined with the ever-increasing amount of data available, will create significant changes for the risk profile of our organisations and for our own work. At the moment, some risk managers may still consider AI as something for manufacturers, technicians and engineers. However, it has profound implications for risk management."

"AI is no longer science fiction; it's already a reality," continues Willaert. "It is a global risk issue and it's the job of the risk manager to process and to manage this. To fulfil their potential, risk managers need to learn how they can be key actors in highlighting the opportunities and challenges of AI technologies to senior management, including the ethical dimension."

Dealing with these evolving and emerging risks is one of the key topics of this year's conference in Berlin and Ferma published its the first guide on AI applied to risk management in time for the forum.

On another core topic at the conference – change and sustainability – Willaert says: "When it comes to climate change, companies are under increasingly wide pressure to reduce their impact on the environment. The EU is also driving businesses to contribute to a transition to a sustainable economy. The question is how, and at what cost? Clearly there are risks but also opportunities."

He points out that the political scene provides further uncertainties. "There is a loss of trust in some of our institutions. The full consequences of Brexit have yet to unfold, and we are awaiting the full work programme for the newly elected European Parliament and delayed next European Commission for the next five years."

RISK MANAGERS AS EDUCATORS

In the face of such uncertainty, Willaert believes passionately that the risk manager of the future will still need three qualities: communication, education and leadership.

He says that certification is one way that risk managers can demonstrate to executive management that they have a strong foundation of risk management knowledge. By having a strong knowledge basis and proof of certification, Willaert believes that risk managers can show business leaders that the risk management function is professional and can help aid better decision making.

But he also argues that communication is a two-way street and that risk managers need to get better at listening as well as speaking. They must learn to listen to the needs of the company and have their fingers on the pulse so they know what is happening in every department, from legal to financial.

He concludes: "With these skills, I believe that risk managers can rise to the challenges of the future. They will add value to the continuity of the company, and will be recognised for doing so." **SR**

Revealing Mr Hyde

Every organisation wants to project a nice guy image. But their shadow values – the ones employees actually follow – may uncover an alter ego that is much uglier. How can risk managers work on negative forces that wish to remain elusive?

We have all been there. First week of a new job and you are introduced to the company via HR policies and procedures. You are informed of the company values and told: "This is the way we do things." Except… it isn't. You meet your colleagues are told: "*This* is the way things are actually done around here." And that is precisely where the curse of shadow values begins.

In psychology, the dark side of human nature is often described as the alter ego. It's what Freud referred to as the 'id', and Jung identified as the 'shadow' – the sum total of all those unpleasant qualities we prefer to hide.

"The shadow gains its power through being habitually repressed. And it manifests in a multitude of symptoms and psychological disturbances," says The Ethics Centre director of innovation John Neil.

"Similarly, an organisation's shadow values gain their power from being kept below the surface. At their worst, they are destructive mutations of the official values, that pose an existential threat to the integrity of an organisation's ethical culture."

Left unchallenged, values like these are highly likely to become the unofficial cultural values of an organisation, poisoning the mentality of the firm slowly and insidiously.

VALUE JUDGEMENTS

But when companies look to create a set of values, many don't know where to begin.

"IF THE MANAGERS OF AN ORGANISATION SAY ONE THING BUT CONSISTENTLY DO SOMETHING ELSE ENTIRELY, IT BREEDS A CYNICISM AND DISCONNECTION THAT PERMEATES THE ENTIRE WORKFORCE."

Director of innovation, The Ethics Centre
John Neil

"It's a perennial challenge for all organisations," says Neil. "Ensuring behaviour, policies, systems a nd processes are aligned with that ethical framework is no easy feat. If the managers of an organisation say one thing but consistently do something else entirely, it breeds a cynicism and disconnect that permeates the entire workforce. Customers and other stakeholders eventually figure it out as well."

"There's a whole typology around values, so you can have aspirational values that you need to drive your strategy, but ideally there'd be very few of those. Most of your values should describe explicitly the type of culture that you have, that's in line with your purpose. The cookie-cutter approach is never going to work when you are designing values for a company."

Neil notes the now infamous Enron example as a starting point. "*Respect, integrity, communication and excellence*. These are admirable and worthy corporate values – ones you'd proudly make official and put on the wall. Unfortunately, those same values also belonged to Enron."

"Only 12 months before declaring bankruptcy in 2001, the largest in US history at the time, Enron received plaudits for its 64-page Code of Ethics. It was named 'America's Most Innovative Company' by *Fortune* magazine and received numerous awards for corporate citizenship and environmental policies."

One of the biggest mistakes firms make when

designing a value system for their firm is not taking into account the thoughts of stakeholders.

"The executive group usually get together in an afternoon meeting or have a conversation. They may do a more intensive process, but rarely does it involve the stakeholders. They don't include staff. It's rarely a bottom-up process. Typically, it's partly a reputation marketing function," says Neil.

Another huge mistake is when firms opt to change their values when changing the corporate strategy – thereby missing the point of a solid value system.

The Ethics Centre senior advisor David Burfoot says: "If you change your values every time you change your strategy, it is incredibly destabilising. People don't invest in them and that's where shadow values begin to arise, because people start saying: 'These are our values but *these* are the things we actually value.'"

CULTURE OF SILENCE

Neil says identifying the existence of shadow values is where the real work begins for an organisation. "Uncovering shadow values can reveal deeper facets of an organisation's actual operating culture. By proactively identifying and monitoring its shadow values, an organisation is better placed to see any early drift in the alignment of its culture from its values and principles."

"Consider the fraudulent behaviour of Volkswagen engineers, who deliberately programmed 500,000 diesel-powered vehicles to provide false readings during emission testing. Despite the company's explicit corporate values of excellence, professionalism and a commitment to integrity, it became clear through the accounts of investigators and employees, that a number of unofficial shadow values were dominating the organisation's culture."

An insidious culture of fear, with intimidation used as a primary motivator for achieving sales targets, is what drove Volkswagen's employees to continue the market deception, according to Neil. Fear provided a bulwark against any dissenting voice being raised to challenge decisions. These voices were kept silent by a culture that fostered internal competition and secrecy.

WE NEED TO TALK

Burfoot argues that shadow values aren't always negative but the identification and management of them is important for an organisation.

"You can articulate the kind of guiding

instruction processes and articulate the values within your organisation, but then there are the ways that people work that may be absolutely contrary to that, or may just be a variation on that. I think it's important to note that shadow values are not necessarily always negative influences. They can be kind of subtle nuances of existing values."

"But the point is, we need to have an open conversation around risk culture, and culture generally. How do you measure it? What does it look like? And what actually is the culture in this organisation?"

University of New South Wales director of risk and assurance Trudy De Vries agrees that identification is key to risk managing this issue effectively.

"The danger of shadow values is that if you're not cognizant of them, if you're not aware of them, then you're not going to be able to understand where a bias might occur in rating a risk or even identifying what the risk is."

Risk managers often talk about ethical frameworks and cultural frameworks. However, by using definitions such as these, says Neil, c-suites may be missing the point of what we are trying to articulate. "Organisations don't use the term 'ethical framework'. They talk about their corporate values and their vision and mission, etc. Increasingly, we are also seeing them talk about purpose, which is really important."

"THE DANGER OF SHADOW VALUES IS THAT IF YOU'RE NOT COGNIZANT OF THEM, THEN YOU'RE NOT GOING TO BE ABLE TO UNDERSTAND WHERE A BIAS MIGHT OCCUR IN RATING A RISK OR EVEN IDENTIFYING WHAT THE RISK IS."

Director of risk and assurance, University of New South Wales
Trudy De Vries

He continues: "The distinctions between a purpose and a vision and a mission is not just a technical one. It's also an ethical one. A purpose is a perennial foundation for what it is the organisation does, and it needs to be evaluated against its vision, which relates to its values, so often organisations don't make that connection. They're often kept as separate entities," Neil adds.

OUT OF SIGHT

Burfoot argues risk managers may struggle to identify shadow values within their organisation because of their elusive nature. "The reason shadow values can be so powerful in conversations is that they're not supposed to exist. And because of that, it evades all the controls."

He adds: "Basically, this risk is not counted. It's not on the list in the risk register. There's no audit programme for it, there's no control set up for it, because it's not supposed to be there. What gives them so much potency is that they aren't stated."

De Vries also says a culture of fear of reprisal will mean risk managers may never really know the true risks within their business.

"If your shadow values are conservative and staff are frightened to do any wrong or to raise bad news, then you as a risk manager are not going to get the real issues in risk. You have got to understand what kind of shadow values are operating and how those might sway or skew the risk information you get."

"If you don't understand what is lurking below the surface, how can you manage those risk effectively?" **SR**

WORST CASES: TAKING ADVANTAGE OF CHILDREN?

Some of the more shocking examples of shadow values in recent years were revealed by Australia's Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

These examples of bad behaviour included billing customers for no services, charging deceased citizens' accounts, lending money to the disadvantaged and unemployed, thereby crippling them, and giving executives bonuses in excess of 300% of annual salaries.

Perhaps the worst example was the Dollarmites scandal at the Commonwealth Bank, which involved fraudulent acts against children. Dollarmites savings accounts are a well-known savings system that Australian parents can utilise through the school banking system and which many take advantage of.

The Royal Commission found thousands of children's Commonwealth Bank accounts were fraudulently set up by retail branch staff as part of a widespread scam to meet aggressive performance targets within the bank and earn bonuses.

The scam involved staff either using the bank's money, loose change of their own cash to illegitimately activate Youthsaver accounts for financial gain. They did this in cases where parents had signed up their children for school banking, often referred to as Dollarmites Youthsaver, but had not deposited money into the account within 30 days, according to the *Sydney Morning Herald*. If no deposit had been made, the sign-up would not count towards sales targets and financial rewards for staff.

A Fairfax Media investigation revealed that the scam was part of a broader culture of gaming financial incentives at the bank, where staff were caught faking customer referrals to boost performance targets and earn rewards.

The dream team

The lure of the start-up may be great, but so are the risks. Adam Selwood and Susie Jones, the hearts and minds behind Cynch Security, took the gamble, emboldened and inspired by one thing – a great idea.

There are four reasons start-ups fail: neglect or fraud, lack of experience, a lack of managerial experience and general incompetence. Combine this with the fact that 50% of all start-ups fail in the first five years, and you might wonder why anyone would even try.

It usually comes down to knowing you have a really good idea, and for Melbourne-based Cynch Security co-founders Susie Jones and Adam Selwood, both formally in cyber risk management roles with Australia Post, that idea was just too good not to take forward.

Another interesting fact about start-ups is that 70% of entrepreneurs come up with their idea while working for someone else, which is precisely where the Cynch seed was sown.

Selwood begins the story: "About three years ago, I had started to learn about and get a little bit more exposure to the start-up world and start-up culture, which was around the same time Australia Post was running these things called 'Hack Days', an internal initiative. The concept was that you'd come up with an idea, spend 24 hours working on that idea and then compete against a bunch of other teams doing the same thing to see if you could come up with something that was viable and interesting to the business."

He goes on: "Around the same time, I was away for Christmas break and was continuing to research start-ups and came across haveibeenpwned.com, which is a service that allows you to check if your email address has been hacked. I thought this would be a great idea to adapt for the Hack Day."

Selwood says that, while the idea was kicked around, Australia Post ultimately decided it wasn't for them,

"YOU FIND A PROBLEM AND YOU DEVELOP A PASSION FOR THAT PROBLEM AND FOR SOLVING IT. ONCE YOU SEE THAT NO ONE ELSE IS OUT THERE SOLVING IT, YOU CAN'T FORGET ABOUT IT."

Director and co-founder, Cynch Security
Adam Selwood

meaning he didn't become one of their "intrapreneurs", as they are dubbed.

LET'S DO THIS

Fast forward a few months and Selwood was invited to move into Australia Post's Accelerator Programme. "I was essentially given an opportunity to go off and see if we could create a commercial opportunity around an idea. I wanted to find a way to help small businesses when they discover that they've had a data breach."

"We were looking at that as an internal initiative and during that process, I met Susie. Susie was introduced to me by someone in that programme who basically said: 'Hey, you should see if cyber insurance can play a part in this space. And if I know anything about cyber insurance, it's that you should go talk to Susie because she knows absolutely everything about cyber insurance.'"

"That's true," Jones shrugs, laughing. "We met over coffee and I agreed to join Adam. We spent another six months toying around, working with a non-profit up in the Sunshine Coast called IDCare, who provide free counselling service for anyone who was hit by a data breach. But ultimately, we just helped Australia Post realise they didn't want to be a cyber security company."

They were unfazed. Selwood says: "They closed down that initiative unfortunately. By that point, both Susie and I had had first-hand experience with a number of different small businesses in that space. As a result of that, we just kind of caught the bug and felt the need to solve for that problem."

"That is kind of the catalyst for many businesses in these spaces. You find a problem that you fall in love with and you develop a passion for that problem and for solving it. Once you see that no one else is out there solving it, you can't forget about it or leave it alone. We didn't get the opportunity to continue with our idea at Australia Post, so we created Cynch Security to solve it instead."

"I WAS LIVING WITH A SPLIT PERSONALITY BECAUSE I SPENT NIGHTS AND WEEKENDS WORKING ON CYNCH WITH ADAM BUT EVERY OTHER DAY IN RISK MANAGEMENT AND CORPORATE BUREAUCRACY."

CEO and co-founder, Cynch Security
Susie Jones

THROWING THE LADDER ASIDE

Jones is the more pragmatic of the duo; something that is clear from their respective routes into the notoriously difficult world of start-ups.

"My path was a little bit different because Adam had discovered start-up land and was interested in that. That's how he then created the opportunities within Post to go up and play in that space. For me, I had no intention of doing any of that. I was climbing the corporate ladder determinedly and I was doing everything I could to keep on going."

"It just happened to be when I had that coffee with Adam that my secondment was coming to an end and I didn't want to go back to being a risk manager. I just didn't want to go back to my day job. Then he told me what he was doing, that he was getting paid to play a co-founder essentially, and I thought: 'Okay, that's totally a thing that I need to go off and do.'"

In the end, it was the tantalising prospect of decamping from corporate bureaucracy that sold Jones to the idea of tackling Cynch full-time.

"So much of being in a large corporate is just working within the machine. Even when you're really amazing at your job, does it really actually impact somebody else's life? After the project got shut down, we went back to our day jobs. I was living with a split personality because I spent nights and weekends working on Cynch with Adam but every other day in risk management and corporate bureaucracy."

After 15 months of working on Cynch as a side project, Jones had had enough.

"Some months we didn't get to touch Cynch at all. Some months life got too busy and it was too hard. We'd come back two months later and then have to figure out where we were up to, which was incredibly frustrating. Eventually, I was getting a massage and I actually allowed myself to think about what life would be like if I was working on Cynch full-time. By the time I'd got off the massage table, I decided I would quit, and that was that."

"I messaged Adam and said: 'Hey, pretty sure I'm going to resign on Monday to work on Cynch. How do you feel about that?' Then I went home and had a three-minute conversation with my husband, who said, 'Sure.' And off I went."

ONTO A GREAT THING

The next step for this double act was gaining a place on the CyRise Accelerator (a cyber security venture accelerator program, powered by Dimension Data/NTT and Deakin University); something Selwood attributes wholly to Jones's fearlessness in leaving her day job.

"The programme that we were applying for at the time, we didn't know if we'd been accepted but Susie said: 'I'm going to go do this regardless.' Ultimately, I think that was possibly the thing that got us into the programme – you actually just stating: 'I'm doing this whether or not you're involved, guys.' And they said: 'Okay, someone who's got the balls to do that should really get involved in this.'"

Conversation easily flits between Selwood and Jones, sometimes to the point where you feel like a third wheel, but it is clear their natural rapport is one of the key reasons for the incredible success of the business.

Cynch was one of just two international finalists in the NYCx Cybersecurity Moonshot Challenge. The event, run by the NYC Mayor's Office of the Chief Technology Officer, was launched in late 2018 to tackle how to make every small and mid-sized business in New York City and beyond as resilient to cyber security attacks as the Fortune 500 companies. Despite ultimately not winning the challenge, the team are undoubtedly onto a good idea.

WHAT'S THE WORST THAT CAN HAPPEN?

With failure always looming on the doorstep of start-ups, it is of little surprise that Selwood and Jones have a laundry list of mistakes they've made along the way, lessons they are keen for other entrepreneurial risk managers to learn from.

"Save money," says Jones. "Save as much as you can before you make the leap, because it will give you more of a runway to take off from."

"I also didn't gain as much empirical evidence before I made the decision as I probably should have. Thankfully, it turned out all right in the end anyway. But what is going to be right for one person is not necessarily going to be right for somebody else, and you've just got to be flexible and make it work the best you can."

Selwood is quick to echo Jones's thoughts on saving money and adds timing as a huge factor in the success or failure of start-ups. "The reasons we took the jump to Cynch full-time were about timing and the external factors affecting each of us. In the 12 months prior to the CyRise programme, there was no pressure from any direction. In every instance, where we've made that call to do this full-time, there's been some sort of external pressure – be it the market has matured or there are a lot of customers talking to us."

In true risk manager style, Selwood ponders aloud whether he would have changed the timing on his leap to Cynch.

"Ultimately, timing wise and when to do it – it's not really an option to be honest. It was then. It was then or never, and so if the alternative was never, then I don't regret it. You see something, you jump towards it. The other side of the calculation has always been if I don't do this then I'm going to forever regret not having done this. I would have been really disappointed in myself if I hadn't taken the leap."

Jones sees things a little differently. Turning to Selwood, she remarks: "It's funny that you say you think about regrets because I never do. I probably should sometimes but I never do. What was the worst that could happen? The worst case was that we couldn't afford our rent for a while and had to move in with friends and I had to get another job. Once I'd settled that in my mind, then I allowed myself to go off and have the big audacious daydreams of: 'How big could this get?' And in my head it can get really, really, really big, so that makes it a much easier decision."

IN THE SAME CORNER

Selwood is the natural dreamer of the two, having come from a family of entrepreneurial business owners, while Jones is evidently, unmistakably the mouthpiece of the business. This balance is nice but there will always be disagreements, even in the best partnerships. How are they solved at Cynch?

"Cage fighting," says Selwood, with a deadpan expression.

"I would totally win," retorts Jones. Jokes aside, Jones says: "Both of us are really bad if we let anything bottle up. It's also really obvious if we do, so there's no point even trying to – we just talk it out."

Selwood adds that the focus of their combined mission helps keep them from all out war. "We have different ideas, which we present in different ways. Sometimes we deviate from each other but we always find our way back via our shared mission."

Before our conversation can become too 'smiles and rainbows', Jones quickly points out one of the hardest facts about working as a partnership in a start-up. "You have to be really honest with yourself about your strengths and weaknesses and what do you need to be able to overcome these weaknesses. Because there's no hiding when you're building a start-up. If you're bad at something, you get found out embarrassingly fast."

And when you are both bad at the same thing? "We go and have a beer together and find a way to suck it up," laughs Selwood.

There is no stopping this whirlwind pair as they gear up for the next stage of Cynch – organic growth of their team and their footprint over the coming year. It's something they are both understandably excited about. As for any talk of failure, that simply isn't the plan. **SR**

"YOU HAVE TO BE HONEST WITH YOURSELF ABOUT YOUR STRENGTHS AND WEAKNESSES, BECAUSE THERE'S NO HIDING WHEN YOU'RE BUILDING A START-UP. IF YOU'RE BAD AT SOMETHING, YOU GET FOUND OUT EMBARRASSINGLY FAST."

Director and co-founder, Cynch Security
Adam Selwood

Let’s go jargon busting

Risk terminology can get in the way of actual risk management, says Sarah Gordon, chief executive of Satarla. So what should risk tolerance, appetite and profiles look like for a modern business?

Almost every organisation that I’ve worked with has had a slightly different interpretation of what they mean by risk appetite and risk tolerance. This can therefore cause huge confusion, especially when individuals move between organisations.

In fact, one organisation I work with doesn’t talk about risk appetite, they only talk about risk tolerance. But what they mean by risk tolerance is the international definition of risk appetite – again, huge confusion.

The point here is that risk terminology can get in the way of risk management. Sometimes it’s worth looking within the organisation and asking: “Do we need to use the word risk appetite and tolerance, or do we already have our own language that provides us with that?”

SAY WHAT?

If you already have language entrenched in your organisation that already means risk appetite and risk tolerance, (e.g., trigger points) then just use that. You don’t need to superimpose risk terminology because it’s just extra stuff for people to remember.

And the terminology is largely irrelevant. The most important thing is understanding where the edge of your tolerance zone is – so how much risk is too much risk?

Once you know that, you can get on with the businesses of working out what needs to be done when the business is approaching the edge of risk tolerance. That’s when you reach the risk management stage of actually doing something about risks.

Of course, it’s not always easy to ditch the jargon. If there is a piece of regulation that says ‘thou shalt have risk appetite statements’, as is the case in the world of finance, then you need to make sure that those processes are aiding risk management rather than becoming another piece of compliance.

NO NEED TO TRANSLATE

Regardless of what terminology you’re using, you need to know what the trigger points are relative to the context in which you are operating and the objectives you are trying to achieve. Do you review these trigger points only once a year?

Given the current level of uncertainty across many regions, this probably isn’t good enough. You will have different risks changing at different rates and your level of tolerance for these risks will probably change with the changing context.

Too many organisations still see risk management as a tick-box exercise being driven by regulation rather than what it should be, which is your tool to enable organisation-wide decision making in a world of uncertainty.

We must learn to understand the language that people are using to talk about risk, create dynamic risk tools to keep up with a changing world, and most importantly aim to identify our risk tolerances so we can get on with the real business of risk management. **SR**

“THE TERMINOLOGY IS LARGELY IRRELEVANT. THE MOST IMPORTANT THING IS UNDERSTANDING WHAT THE EDGE OF YOUR TOLERANCE ZONE IS.”

Chief executive, Satarla
Sarah Gordon

FUTURE THINKING

#ChangingRisk

The revolution forges onward and it is a group effort, as we pool our top minds, our energy and commitment to change, to push through outmoded thinking, and redefine our worth.

CONTENTS

We can make a breakthrough

Real change to the risk profession must start from within. As we look towards a new year, can the industry shake off the shackles of outdated misconceptions about risk and promote its own value to leadership?

WHAT DO YOU THINK IS SLOWING CHANGE IN RISK MANAGEMENT?

NOT ENOUGH CONSULTING

No insurance, auditors or large consulting companies. We need to create a think-tank of thought leaders with independent views to redefine and recreate risk management.

LESS TALK, MORE ACTION

A lot of documentation and lack of practical approach to decision-making teams. Our work is not only communicating the risk but also co-develop solutions to the business.

BEYOND A COMPLIANCE

First, we need to discuss methodologies less and think about what is happening in the world and how risk management can help to address issues such as cyber security and emerging tech. Second, we must forget that risk is a compliance and a necessary but bad-tasting medicine. It needs to be seen as something that makes companies more robust and generates opportunities. And third, risk professionals with different views, opinions and methods need to sit together and discuss a more integrated approach.

NEW THINKING

Mindsets. Things have been getting done in a particular, peculiar manner for a long time, and this is continuing, maybe due to a herd mentality and risk managers following what the majority are doing.

MENTORSHIP NEEDED

Lack of awareness and training and using examples of successful approaches to risk management. There is a responsibility for those who are moving the profession forward

WHAT ELEMENTS OF RISK MANAGEMENT ARE OUTDATED AND INEFFECTIVE?

OUR REPUTATION
The traditional risk management tools (e.g., heat maps, risk registers) are out of date to the extent that they align to a compliance function rather than a strategic adviser. Boards and execs are yet to see risk as an integrated component of strategy creation and achievement. 'Risk management' has negative connotations to most execs (outside of financial services). It is perceived as a brake or inhibitor of growth rather than an enabler.

HUMAN BIAS
Reactive, not predictive, profiles and responses. Qualitative, not quantitative, assessment. Identification relies too much on humans and their biases.

NO PERFORMANCE FOCUS
Any risk work or activity that is not connected with a decision. Creating and using risk-specific language, descriptors or measures that are not incorporated with performance or how the business thinks and operates. Heat maps. Not acknowledging the presence of human bias and the way it impacts our analysis and behaviour.

WE NEED TO INTERACT
The risk management community itself needs to better calibrate the interaction among its professionals (strategic, control/internal audit, insurance, etc.). In terms of what's outdated, I'm not sure if heat map bashing and introducing Monte Carlo is the solution to everything, I think risk identification remains the key challenge and one needs to ask the question if the risk management is best suited for unprecedented/disrupting strategic risks or if you should stick with insurable/ops risk.

to coach and mentor those who want to further develop their skills. Over time the bar will hopefully raise and the expectations of organisations, in terms of the value that risk brings to decision making will increase.

BAD CHOICES
Lack of appetite and a focus on negative risk choices (which ignore the fact that there could have been thousands of good ones before it).

NO BUY-IN
Lack of buy in from businesses to invest. Lack of power from risk teams to drive change. Lack of competence in risk teams to drive change.

WHAT WOULD YOU CHANGE TO IMPROVE RISK MANAGEMENT'S EFFECTIVENESS?

PROFESSIONAL RECOGNITION
A universal standard that risk managers could achieve for cross-sector recognition, acting as a foundation. This would ensure a base level playing field and standard, which leaves scope for specialism.

BRING HOPE, NOT FEAR
In the UK, the big problem concerning risk management is culture. So we can be the biggest expert but if people consider risks only by their consequence, we will continue as we did in the past. We need to change the way people see the risk. We need to help them to understand there is more natural preventive approach. We need to be positive. We are fear generators. We must be hope generators.

IMPROVE GOVERNANCE
Get risk governance right – cross-functional, top down and bottom up, providing meaningful executive decision-making support.

BUILD RISK CULTURE
First, most operational/execution-focused risk management is being done well and is fully integrated into daily business operations. I would tap into how company decisions are made and address how uncertainties are analysed. If and when value can be added, I would push to enhance this, to support better decision-making and the understanding of real uncertainties.

Next, I would look at project management and the preparation of business cases (decision support material). I would address how project risks are identified, assessed and handled – and how that can be strengthened.

Lastly, I would look at how strategic plans are made, and address how uncertainties on the strategic horizon are taken into consideration when defining company aspirations. In all three steps I would carefully and explicitly build in on-the-job training to ensure those involved can continue doing this without my help and hence we can build a culture of intelligent risk taking.

Be a risk educator

Sabrina Hartusch of Triumph International believes three things will drive risk up the maturity curve: better promotion of what we do, a clearly defined risk philosophy, and venturing beyond our community.

WHAT ARE YOUR HOPES FOR RISK MANAGEMENT IN THE FUTURE?

Across many companies and industries, there are strong examples of robust and effective risk management: of risk managers structuring their function to positively influence departments; of risk managers feeling empowered to reach out to stakeholders. Risk management has matured significantly over the last few years but, as a profession, are we at the top of the risk maturity curve? I don't think so. And there are two core reasons for this:

Risk management is fragmented. The understanding of risk management across departments and at board level, and the depth of influence that risk managers have in shaping decisions, vary across companies and industries. Risk managers don't always have a seat at the top table, so they are unable to educate decision-makers.

Risk management is relatively new, so there isn't always a uniform approach. There is confusion over what risk managers do and what their value is. We need to address this fragmentation.

> "It must be part of our role to promote what we do. This is not always easy..."

WHAT WOULD YOU CHANGE ABOUT RISK MANAGEMENT?

Risk management can make a big difference in the world of business – if we allow the function to flourish. And this requires a change of mindset – we as risk managers must adapt to change to ensure our relevance in the future. How we conduct business in the future will be very different to how we operate now, not least because of technological advances and globalisation.

As a profession we need to contribute to discussion around the future of business. After all, it is our job to be informed of both present and future risks so that we can shape the business decisions of tomorrow.

WHAT FRUSTRATES YOU MOST ABOUT HOW RISK MANAGEMENT IS PERCEIVED?

One of risk management's biggest hurdles is a lack of uniform understanding of what risk management is and its value. If this is not recognised across departments, at the top table and externally by other professions, businesses will end up diluting its purpose and its potential. There should be no reporting line boundaries and the risk manager must be able to move through all levels of a company. It is not enough to just be 'present' at the board, they need to be visible at every level.

SO, WHAT CAN RISK MANAGERS DO TO ENHANCE THEIR ROLE?

It must be part of our role to promote what we do and educate. This is not always easy. For those who have little understanding or appreciation for risk management, the risk conversation will take time: they must be shown our achievements, scope and potential on a regular basis.

Risk philosophy: the risk department can achieve double the impact if a mission statement and philosophy is clearly outlined. A good team shares the same purpose, philosophy and objectives.

Expanding risk management beyond our community: sharing best practice among the risk community is very important but we must go a step further and connect with other professions – engineering, finance and accounting, etc. By doing so, we can learn about their understanding of risk management, educate them of the value and influence their perception of it.

IF YOU WERE TO WRITE A RISK MANIFESTO FOR THE FUTURE, WHAT WOULD BE THE NUMBER ONE POINT THAT YOU WOULD PUSH?

We need to shift from looking purely at corporate risks and give focus to corporate social responsibility – looking at the company's carbon footprint, for example, or conducting a careful review of supply chains to ensure ethical trade. There are good reputational consequences here, too. A company's commitment to reducing environmental and societal risks should be backed by a good PR plan to spread the message. **SR**

Sabrina Hartusch is global head of insurance at Triumph International.

Get an all-access pass

Challenge misconceptions and strive to be involved in decisions before they are made – do these things and we can really advance the #ChangingRisk revolution, says outgoing Ferma president Jo Willaert.

HOW CAN THE RISK COMMUNITY MOVE UP THE RISK MATURITY CURVE?
I don't like the word 'change'. I believe, based on my experiences over the last four years heading Ferma, that risk managers have the skills that they need, but the next step is to challenge the perception of risk management, so that everyone in a company understands its value.

Risk managers are often seen by the chief executive and the board as 'insurance managers', who are only responsible for premiums. But insurance is just one of the solutions at a risk manager's fingertips. The industry needs to get better at demonstrating the importance and breadth of risk management.

IF YOU COULD RE-LAUNCH RISK MANAGEMENT, WHAT OPERATING MODEL WOULD YOU ADOPT?
A lot of our current risk managers come from other disciplines – accounting or legal, for example. So they need the specific knowledge and skills of risk management – they need education. This is important because when decision-makers hire a risk manager, they should at least know that they are hiring a certified professional.

Second, the role of the risk manager must be clearly defined, which is why, for me, the three lines of defence model is important. Risk management has grown in importance over the last 20 years, and part of this is thanks to the three lines of defence. It has been proven to work. It clarifies the position for all the players in the process from risk manager to internal audit and decision-makers.

It is also worth talking about methodology. ERM has been very successful but it is probably a little bit too static. We must make ERM much more flexible and interlink it with governance. And then, of course, there is the importance of data. For the time being, I'm convinced that risk managers do not have all the data that they should. One reason for this is that data is marked as confidential and risk managers are not considered to be part of the group that should be given access. We must work with the board and the decision-makers to change this and to demonstrate that the value-add of risk management can only be realised if the risk manager has all the information.

HOW CAN YOU CONVINCE THE BOARD OF THE VALUE OF RISK MANAGEMENT?
The board will never make a decision that has legal consequences without discussing it with the legal team. The board will never do anything without a financial expert, treasurer, etc. Risk management is similar in that you cannot make strategic decisions without knowing exactly what the consequences and risks are.

To effectively manage your targets and strategy, you must understand the threats that you face. That way you can make a decision in respect of the risks. The risk manager must explain to the board what the risks are, what the actions and possible solutions are, and what the costs are.

Then it's up to the board to make these decisions. Without this advice, they cannot make an informed decision. But often times, risk managers are so consulted after board decisions have been made. The risk manager must be involved in the decision-making process much earlier so that managers can make decisions in possession of all the facts. **SR**

Jo Willaert is corporate risk manager at Agfa-Gevaert.

We can deliver more

It takes two to tango, says IRMSA chief risk advisor Christopher Palm, as risk managers must build resilience into strategy, but leadership must enable them to do so.

DESCRIBE THE STATE OF RISK MANAGEMENT TODAY – HOW HAVE RISKS EVOLVED?

The Institute of Risk Management South Africa (IRMSA) launches the sixth edition of its IRMSA South Africa Risk Report in February 2020. And looking back, it is disappointing to see that so many risks have materialised. Because the South African and industry risk profiles have remained largely the same and most of them materialised over this period – so the risks were well known and yet the risk responses were ineffective.

In fact, the risks, which include unemployment, fraud and corruption, income disparity and failure of governance, have not just materialised, in cases like unemployment they have actually deteriorated.

Looking ahead, risks that are making their way onto the South African and Industry risk radar are climate change, which has sporadically been included on South Africa's risk profile, social disobedience and pressure on South Africans' Chapter 9 institutions, which include the Public Protector and the South Africa Human Rights Commission. South Africa needs effective Chapter 9 institutions who uphold democracy on our behalf. IRMSA believes we need a strong, ethical and independent leadership that visibly holds key role players accountable within the roles they have been voted into.

HOW DOES THE RISK MANAGEMENT PROFESSION NEED TO EVOLVE TO MEET THE CHANGING DYNAMICS OF RISK?

Executive committees and CEOs of South African organisations must expect more from their risk managers. It does, however, take two to tango – business must actively involve their risk managers (not just expect them to tick boxes), and expose them to business-critical information so that they can bring value to decisions.

Internationally, a risk manager should not be appointed if they cannot add value to an organisation's performance. Risk managers are expected to confidently comment on the strategy and performance of an organisation and contribute to the company's agility by delivering quality, timely and relevant information. Local companies should demand more from risk managers, and we should deliver.

For example, a risk manager with quantitative analytics skills who takes this approach can be more predictive and support the business's strategy with alternative futures, which will lead to better decision-making. If businesses know what their options are and these options have been quantified, it gets easier to make the right decisions. The risk manager who adds the most value to an organisation's performance is the one who has accepted the notion that risk is about the future and that uncertainty is not confined to a risk register but that the integration of strategy, risk and resilience is a critical next step, if not already adopted.

Reflecting on the past five years, many things must be done differently. The first is ethical leadership, with pervasive, persistent accountability and consequence management. A critical paradigm shift required by leadership is that risk responses that were effective in the past are not guaranteed to address the risks of the future.

HOW CAN ORGANISATIONS USE RISK MANAGEMENT TO BECOME MORE RESILIENT AS THREATS CHANGE AND GROW?

There are three key requirements for companies to do more of the good, less of the bad and grow resilience in order to thrive in an ever-changing landscape.

First, everyone needs to start talking about strategy, risk and resilience. Secondly, we need to clearly understand who our stakeholders are, the rules they play by, and the context in which this will happen. Lastly, organisations will need more agility and robustness in their governance processes. **SR**

Christopher Palm is chief risk advisor for the IRMSA.

Know our value

We can only make a true difference to #ChangingRisk if risk management is backed by proper investment, says Sogefi Group's Valentina Paduano.

HOW WOULD YOU CHANGE RISK MANAGEMENT?
In today's organisations, there are good risk assessment practices – risk identification and quantification, for example – but awareness of risk management strategies needs to be enhanced. This is the next and most important step. The proper identification of a risk is nothing without a timely and adequate strategy to manage it. Today, the resources invested by organisations to reduce risk exposures are still low.

WHAT FRUSTRATES YOU MOST ABOUT THE WAY RISK MANAGEMENT IS PERCEIVED BY STAKEHOLDERS?
There is a perception that risk managers can solve any problems in the company without understanding (or ignoring) how important it is to adopt proper mitigation strategies. We must remember that the risk owner is the business/function manager responsible for that activity.

Also, through risk management, we can do the best assessment of business risks, but these will remain 'just a good exercise' if the management is not ready to put adequate resources in place to manage risks.

> "Proper identification of a risk is nothing without a timely strategy to manage it."

IF YOU WERE TO WRITE A RISK MANIFESTO, WHAT WOULD BE YOUR NUMBER ONE POINT?
In the context that cost optimisation is one of the main business targets, I would like to push the principle of 'cost and risk optimisation'. Analysis of business risk is the key driver to address resources allocation.

IF YOU COULD RELAUNCH RISK MANAGEMENT, WHAT OPERATING MODEL WOULD YOU USE?
The ERM model based on a top-down, value-driven and business-oriented approach is a good model on which we can continue to invest. Basic risk management principles are still valid. For instance, the three lines of defence represents a good practice. I'd suggest we leave out all the theoretical risk exercises that in some cases evaluate the gross risk before the calculation of the residual ones. What is important for the business is to understand effective risk exposure and if there is further room for mitigation. What value is added by the gross exposure? In my experience, it's minimal.

ARE RISK MAPS/MATRICES FIT FOR PURPOSE?
The traditional approaches facilitate a discussion with management about risk results. It is important to preserve a common language of risk to avoid confusion. But this language must be business oriented and as concrete as possible. For example, I don't like the risk catalogue listing over 100 risks without really qualifying them and providing clear information on the related exposure and potential opportunities to mitigate them. I prefer to have a shorter list of risks (5 or 10), each one analysed in detail, providing a clear picture of the related context and scenario.

Second, the traditional methodology should not be a constraint. For certain risks it is impossible to assign a score of impact and likelihood. Think about the risks related to contract management, where the assessment is focused on the risks that could potentially occur during each process phase (contractual liabilities in case of underperforming. etc.). In this case, it can be more useful to understand the existing weaknesses and how to reinforce the process instead of forcing a score definition. The focus must always be to preserve the key value of the analysis to facilitate internal decisions.

WHAT WOULD YOU SAY TO CONVINCE BUSINESS LEADERS OF THE VALUE OF RISK MANAGEMENT?
Think about the main risk for your business – that one risk where you are aware of the high impact. Now ask your risk manager to quantify this risk, using an ERM methodology. You may discover that the financial impact of this risk is significantly higher than your expectations.

This risk management approach helps management to materialise a qualitative perception of such risks, reducing scepticism of this kind of analysis, and helps define, consciously, how much resource to invest in mitigating the resulting exposure. **SR**

Valentina Paduano is chief risk officer and sustainability director for Sogefi Group.

The reputation wreckers

News travels faster than ever, and bad news about your business – even if it's not your fault – could damage your reputation irreparably. But Hans Læssøe of AKTUS says having pre-emptive risk management plans and working on your good-guy status now can make the difference.

The term "reputation risk" is heard more and more frequently, in-house as well as in management magazines and the general press. And the ever-increasing use of social media exacerbates the importance for any organisation to have a deliberate stand on reputation and ensure this is being managed.

The term is gaining attention – but currently remains somewhat blurred and undefined. Here I'll aim to define the concept of reputation risk as well as offer some thoughts related to possible actions and safeguards that can be prudently taken.

First and foremost, let's be clear: reputational risk is not one risk, but rather a category of risks that may impact your reputation. You do not wake up one morning and have a bad reputation – something happened prior to that to generate the bad reputation. The real risk emerges from "what happens".

This is not to belittle reputational risk in any way as the damages caused can easily be more severe to the prosperity, or indeed survival, of the company than most other risks. If you are impacted by a financial risk that costs you a huge amount of money, unless it makes you go bankrupt you can continue doing business. If you are impacted by a reputational risk that invokes consumers not to want to trade with you, you may be in dire straits, and the way out can be cumbersome.

Furthermore, it is important to note that the incidents invoking reputational demise may not be of your own doing or influence – which is a key reason the issue is now getting the attention it currently commands.

Finally, as with most other risks, the flip side of the coin is opportunities. There are opportunities to pursue, drive and manage that improve your reputation as well.

SOURCES OF DAMAGE

Reputational risks may be of your own doing and hence within your own control. But it may also be an outcome of actions made by others, and hence outside your immediate control. Such third-party

"IF YOU ARE IMPACTED BY A FINANCIAL RISK, YOU CAN CONTINUE DOING BUSINESS. IF YOU ARE IMPACTED BY A REPUTATIONAL RISK THAT INVOKES CONSUMERS NOT TO WANT TO TRADE WITH YOU, YOU MAY BE IN DIRE STRAITS."

Principal consultant, AKTUS
Hans Læssøe

actions may be made to intentionally harm your brand and company, or they may be made without consideration as to any impact it may have on your brand and company. But take note: the fact that you cannot control third-party actions does not mean the related risks cannot be mitigated.

The organisation itself is the prime driver of sources to reputational risk. Any diversion from the safe and prudent, well-managed and honest leadership may invoke reputational risk.

HEALTH & SAFETY

Logically, behaving badly drives a poor reputation. The most impactful of these is being in breach of laws and defined regulations, especially if and when it is at the expense of the 'little guy', e.g., the shop floor worker. Health and safety violations create a bad reputation fast.

One prominent example is the Bhopal pesticide plant gas leak tragedy in India, which killed an estimated 15,000 people, led to serious birth defects up to 30 years later, and caused widespread environmental damage: all due to negligence. This incident created massive reputational damage to Union Carbide, the company behind the accident.

UNETHICAL BEHAVIOUR

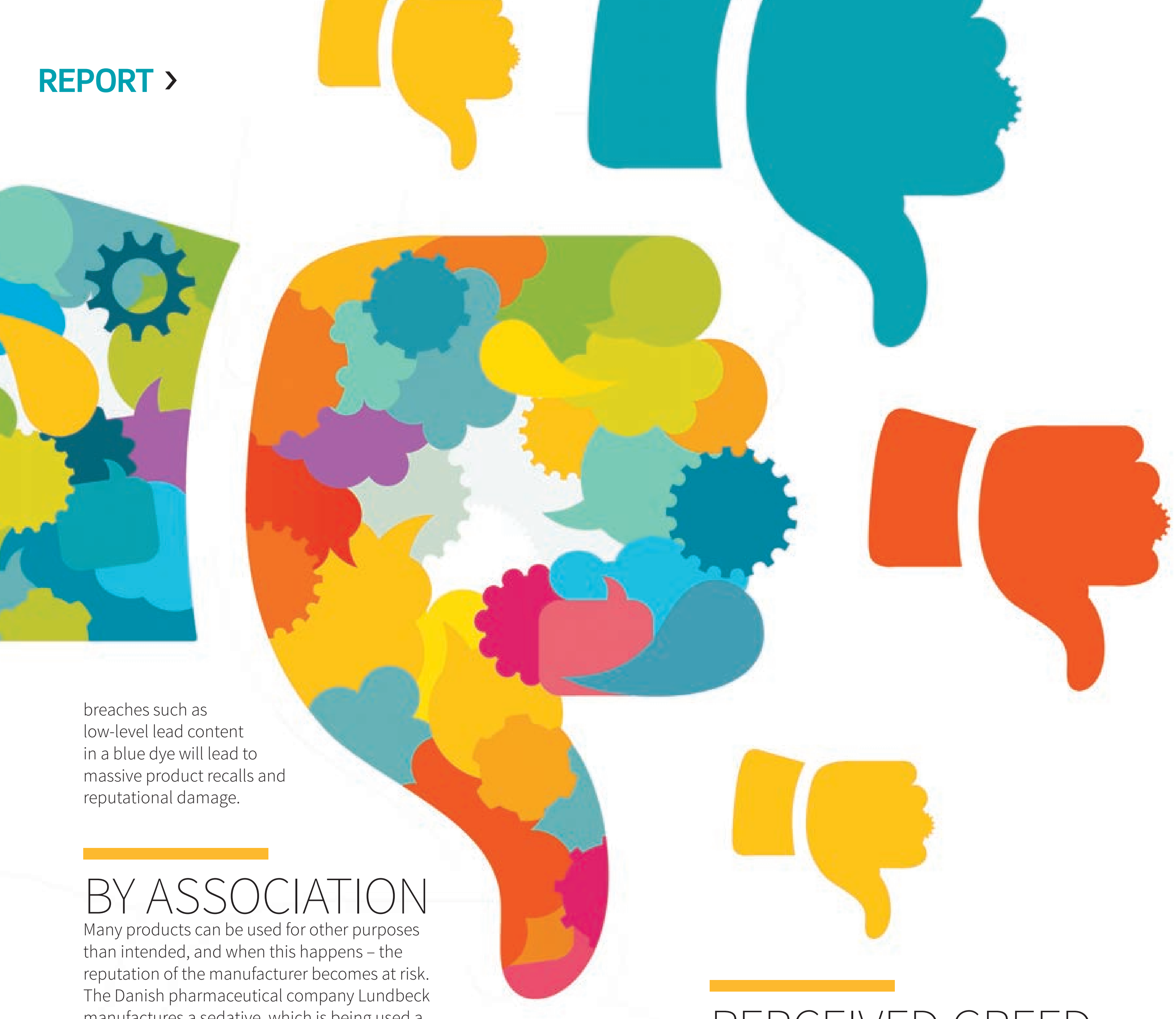
Unethical behaviour, e.g., exploitive child labour in Asia, will also have a serious negative impact on your reputation – even if it is argued this is being done with the best care and respect for the children whose alternative is not play and school. Consumers in Europe and USA will project their perceptions of life and expectations for children in their own countries onto the workers at these factories.

PRODUCT SAFETY

Another source of reputational risk is product safety issues. If what you deliver is not safe in use or could be misused, your reputation will be at risk. Product safety requirements must be adhered to in order to safeguard your reputation.

It's interesting to note here, that Smith & Wesson making guns or Benson & Hedges making tobacco does not cause a bad reputation. Consumers know the risks caused by the products. Whereas a toy leading to the death of a child is devastating, as in the case with the Magnetix toy from MEGA Brands, which was swallowed by a small child, leading to his death. This delivered a severe setback to the company behind it.

Indeed, particularly in the industries related to children, safety is essential, and even 'more minor'



breaches such as low-level lead content in a blue dye will lead to massive product recalls and reputational damage.

BY ASSOCIATION

Many products can be used for other purposes than intended, and when this happens – the reputation of the manufacturer becomes at risk. The Danish pharmaceutical company Lundbeck manufactures a sedative, which is being used a part of the lethal injection process in US prisons. This was not intended, nor approved, by Lundbeck – but as it is happening, Lundbeck, who says it is "devoted to saving and improving lives" becomes the manufacturer that kills people.

POOR CONDUCT

Arrogance or insensitivity in communications and/or actions also depletes a reputational risk. For example, when BP experienced the Deepwater Horizon accident, they first accepted full responsibility and promised full recovery. The attitude towards BP was generally not that bad – given the severity of the situation.

However, when it later became clear that they lied about actual issues, and that the accident was a consequence of a consistent cost-cutting focus (despite public announcements of 'safety first') – the hammer of bad reputation hit them hard. When the CEO added insult to injury by stating: "I want my life back", the reputation of BP hit an all-time low.

"TREATING YOUR EMPLOYEES, PARTNERS AND CUSTOMERS WELL IS A GREAT REPUTATION-BUILDER. WHEN TREATED WELL, THESE PEOPLE WILL SPEAK NICELY OF YOU, AND THERE IS NO BETTER COMMERCIAL THAN THIRD-PARTY ADVOCACY."

Principal consultant,
AKTUS
Hans Læssøe

PERCEIVED GREED

In many countries, and most certainly in the US, there is a positive aura and perception around companies that do well and are highly profitable. In these countries, successful companies can get away with more than others – just because they are successful.

One prominent example is Apple's Steve Jobs, who was not the ideal executive and people leader in many respects, but because it was under his reign that Apple became so enormously successful Steve Jobs was seen as a hero. If performance drops, yesterday's hero becomes today's villain. Enron was highly commended in business and in the press – until the day the bubble burst.

However, in some countries, e.g., Scandinavia, there is a limit to accepted profitability. It is well-appreciated that companies must make a profit – but if the profit or profit margin is perceived as being unreasonable – the public will take offence to some extent. Even in the US, large parts of the financial/banking industry experience this with its high levels of remuneration and investor earning demands after the financial crisis. Profit is good and accepted – greed is largely considered unacceptable, and the fine line between them differs from country to country.

PERSONAL SLIPS

Positive management tends to elevate the company to an ever-increasing esteem – yet, one severe slip-up that is not addressed well, and all is lost. Suddenly one finds that 'the higher the mountain, the greater the fall'. This is often seen in politics, where politicians strongly campaigning on, for example, crime prevention, are caught over some minor issue from the past. Or they might be promoting 'family values' and are then exposed for being unfaithful at some point in the past. Such politicians are now lambasted as hypocritical and will likely struggle to maintain or gain power.

However, it is fortunately not the case that any slip-up from any leader will lead to such severe loss of reputation. The impact is a matter of handling and crisis management, i.e., the risk management.

You know this from buying a car. If you buy an expensive car, and you experience some fault – you initially get angry/frustrated as this "should not happen with an expensive quality car". However, if the dealer ensures your claim is handled professionally and expediently, you may well come away thinking: "I'm glad I bought this brand, because look at the service I got."

On the other hand, you may own a car from a less prominent brand with which you experience no faults – yet, that brand is still only acceptable; there is little reputational added value in the flawless car. Reputation can be built, even on mishaps.

"IF YOUR REPUTATION IS GOOD, YOU ARE LIKELY TO BE VALUED TO BE WORTH MORE THAN DIRECT FACTS MIGHT JUSTIFY. IF YOUR REPUTATION DROPS, THIS REPUTATIONAL STOCK VALUE DECREASES... SOMETIMES FAST."

Principal consultant, AKTUS
Hans Læssøe

COLLATERAL DAMAGE

Reputation risks may also be forced upon you and your organisation from outside the company – not directly related to what you are doing.

An example: Originally, the French wine industry had a huge share of European wine consumption. Then the French government decided to test nuclear weapons on atolls in the Pacific – despite public outrage. This led consumers, especially outside France, to boycott French wine and buy products from the US, Chile, Australia, Italy, Spain and so on, only to discover that these were actually great wines at a reasonable price. French wine has never, even remotely, regained its former market share.

Another case: Manufacturers of AIDS medication were targeted by NGOs to lower prices on their products in Africa, which was challenged by a fragile economy and a huge share of AIDS infection. At first, they stood up against the pressure, but eventually they gave in, and lowered prices significantly – only just to find that was not enough as the true mission of the NGO was to have the World Trade Organization reduce the timeframe within which a patented drug could not be copied.

In Denmark, a newspaper decided to run an article on self-censorship related to religions. To make a point they asked a series of cartoonists to make a drawing of Mohammed. Few did, and the drawings were published with the article. During the first several months, nothing happened, but then a team of people reignited the issue by contacting Muslim societies and dignitaries to create an outrage. This was quite effective, and lead to several Arab countries banning Danish branded products. These brands had nothing to do with the cartoonists' drawings of Mohammed, but still experienced a severe drop in reputation and sales.

ACTIVE HOSTILITY

Sources may even be hostile attacks on your reputation – no more visibly seen than in a US presidential race where negative commercials are a significant share of the campaigns launched. In later years, this has been exacerbated by use of 'fake news' appearing to be third-party and indirect communications, which impact the stand of the opponent.

STAYING WELL-LIKED

Let's not lose sight of the fact that a reputation can be built as well as destroyed. As stated by both COSO and ISO 31000 – a risk may have a positive impact as well as a negative.

Hence, behaving well and being recognised as a "good citizen wherever you are" builds customer and public trust, leading to a better reputation. There are companies that deliberately and explicitly build on this and look for opportunities to do good for their community and prosper in the process. Swiss food manufacturer Nestlé and Danish pump manufacturer Grundfos, as well as many others, do this – currently with a keen eye on the UN sustainable goals.

Treating your employees, business partners, vendors and customers well is also a strong reputation-builder. When treated well, these people will speak nicely about you, and there is no better commercial than third-party advocacy.

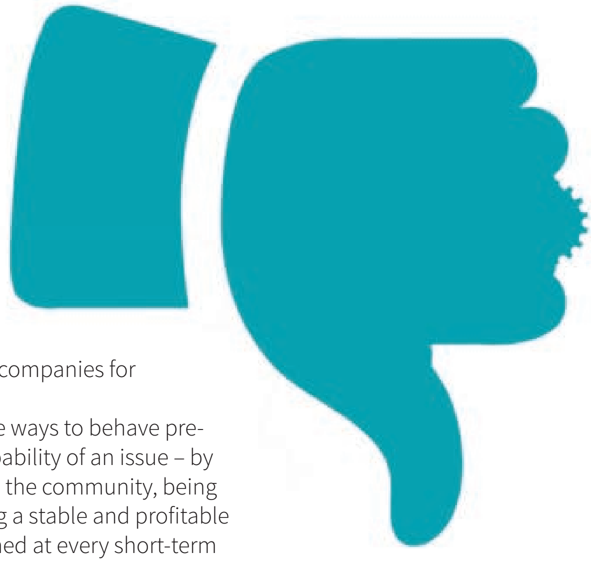
These days, where social media commentary is on a par with or even exceeds the value of TV commercials – the leveraging of third-party advocacy cannot be underestimated. Today you will not be very prone to buy a BMW just because the company's TV ad tells you how wonderful the car is. You will be more prone to buy one if your friend and someone you trust owns a BMW and talks positively about having that vehicle.

Hence – reputations can be built.

SPEED AND LOCATION OF IMPACT

Reputation is all about who and how many feels what. If nobody knows you or your reputation, it cannot be severely damaged. Hence, escalating an incident to a reputational risk is all about communication, and the speed and proliferation of communication around the world increases exponentially.

In history, governments have survived based on limiting and controlling the information given to the people. A few still apply this approach. Today the internet, social media and SMS chains limit this. Facebook fan groups are established and gain



membership in millions over weeks or even days. Tweets cover the world in minutes – so if you are operating globally, an incident can become a reputational crisis between the time you recognise the issue and the time you have assembled your crisis team.

However, handling speed requires preparation, and one important mitigation is knowing who will address any issue – and making very sure these people can team up fast and 24/7, year-round, if need be. This calls for explicit and well-prepared reputational risk management.

Business impact may occur suddenly, and may vanish fast – but will most likely it will be rather slowly. Dents in your reputation tend to be remembered, depending greatly on your defined image/reputation and industry.

The loss of credibility will often have an immediate effect on your stock value as stock brokers race to embed new insights first, and hence act quickly on everything and anything they learn (even if what they learn has no short-term consequences). Losing stock value hampers a company's manoeuvrability and hence long-term prosperity.

Your sales may be impacted based on customer and (more seriously) consumer actions to boycott your products – as seen by the French wine makers.

Your collaboration with vendors and partners can easily be hampered, and you may be met with increased demands for documentation and other red tape issues due to reduced trust from your partners. Steven M. R. Covey refers to this as the "trust tax" in his book *The speed of trust*.

You stand to lose some employees, who will not work for a company that 'does this or that' – and it is likely to be the best people who will leave a company first – leaving you with a B team.

Having a strong and positive reputation is a strength, but it also increases the impact of lost. So how can you safeguard your reputation?

HOW TO MITIGATE

When faced with an incident that negatively impacts your reputation, you must be able to act fast, effectively and correctly.

Having a pre-defined team, with pre-defined reference frames and full authority to act is critical to good handling of a reputational risk. In some instances, a response must be visible worldwide within hours. Some companies so excel at acting fast and effectively that just hiring them is instantly good for your reputation.

It is highly recommended to form such a team, and to have this team conduct 'fire drills' every now and then to ensure efficiency.

It is also recommended to imagine a set of risk scenarios – and discuss these prior to their potential emergence, at least precisely enough to create the guidelines needed. Soldiers do this all the time, but on safety. All routine tasks are rehearsed and rehearsed, over and over – to ensure that in the midst of a crisis, doing these routine tasks does not take a lot of thinking, so attention can be directed towards dodging incoming fire, and so on. This approach can be applied by companies for reputation risks as well.

Finally, there are of course ways to behave pre-emptively to reduce the probability of an issue – by behaving well, doing good in the community, being open and honest, and driving a stable and profitable business (potentially not aimed at every short-term opportunity that presents itself, without having the time to think it through).

To many, the concept of measuring a reputational risk seems blurred and opaque. However, as Douglas Hubbard explains in his book *How to measure anything*, there is "always" relevant data to look at.

Many companies are listed and hence have a stock value. This stock value can be calculated as the 'logical' stock value based on tangible assets and discounted cash flows. If the stock value is higher than this logical value, investors consider the company to be worth more than it 'should be'. If it is less, investors think the value is lower. With an open stock market and thousands of investors attached, this is 'wisdom of the crowd'.

So, if your reputation is good, you are trusted, and likely to be valued to be worth more than direct facts might justify. If your reputation drops, this reputational stock value decreases… sometimes fast.

BE GOOD

We must treat reputation risk similar to earnings risk, and address this in terms of what the impact is (eventually to the bottom line). We also identify root causes, and several of the strategic risks we have in the register are reputational first and commercial second. In the end, all risks are aligned on a commercial (earnings) scale to enable valid consolidation of a risk exposure.

However, before an organisation can validly do that, they need to have some yardstick or metric, potentially in terms of narrative descriptions, as a scale of reputational risks.

Reputation is not a risk in itself, but it can be at risk for a number of reasons – and should be addressed prudently, possibly even vigorously, depending on the importance of your reputation in your business.

Having your reputation at heart and remembering this when deciding on strategies and business initiatives is well worth the effort – and may even serve to safeguard your profitability more than a commercial/financial focus.

The first prerequisite for a good reputation is decency in whatever you do. Too many seem to have forgotten that, and manage their reputation based on an approach of "how can we get away with x". This is short-sighted and it will cost you. **SR**

Hans Læssøe is principal consultant at AKTUS and former risk manager at LEGO Group.

"HAVING YOUR REPUTATION AT HEART AND REMEMBERING THIS WHEN DECIDING ON STRATEGIES IS WORTH THE EFFORT – AND MAY SERVE TO SAFEGUARD YOUR PROFITABILITY MORE THAN A COMMERCIAL/ FINANCIAL FOCUS."

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