Value from Governance
Value from Governance

You should read this report if you:

- Are considering a listing on the London Stock Exchange and are unclear on how to institute sound and effective governance
- Are unsure about your ability to comply with the combined code and would welcome further information about what needs to be done
- Are preparing for a reverse takeover of a listed shell company and have hitherto little experience of governance requirements
- Are a company who is under pressure from shareholders or regulators to demonstrate quality in governance
- Are a multinational seeking a listing in UK
- Have instituted a governance framework but are not confident about its value, effectiveness or degree of integration with other activities.
Foreword

For companies with an existing listing on the London Stock Exchange, the initial activity aimed at ensuring compliance with the Combined Code of Corporate Governance has largely subsided. Most listed companies are using the Turnbull Report (Internal Control: Guidance for Directors on the Combined Code, to give it its full title) as a high-level route map to guide their compliance framework. However, has this initial activity and resultant framework bequeathed a procedural and logistical nightmare?

Clearly, there will have been building blocks in place. The concept of corporate governance of various types dates back several years in the UK. However the all-embracing Combined Code itself is still in its infancy. It remains to be seen how the London Stock Exchange will react to serious control failures, especially since the Financial Services Authority has replaced the Exchange as the market policeman.

Against such a background, it is easy to view the governance requirement as a necessary evil and an enemy of entrepreneurialism, at worst an imposition and at best a distraction from managing the business. The trick is to turn a conformance issue into a performance vehicle. We believe this is a realistic objective. Indeed, we have already helped companies achieve this aspiration.

Thus the premise of our report is that companies can increase their value to shareholders through sound attention to corporate governance. A number of our leading practitioners in the field discuss various aspects of governance from managing the risk assessment process to capitalising on opportunities via “Upside” risk management.

We address the commercial context of governance activities, commenting on findings from published surveys and our own research. We review the distinct yet complementary roles of the Board and senior management and explore the true meaning of embedding and integration. We also demonstrate the link between control systems and hazard management, especially relevant in post-disaster investigation, where in the search for blame, and with the benefit of hindsight, very high (and perhaps sometimes unreasonable) standards will have been expected from company directors and managers.

Clearly, the way forward is for companies to embrace the concept of governance, making risk management part of the organisational fabric. Governance “à la Turnbull” can thus support improvements in the quality of risk decision-making and help companies meet their targets in a timely and cost-effective manner.

Gordon Hill
Managing Principal
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Corporate governance from Cadbury to Turnbull - an introduction

Deborah Graham charts the development of corporate governance in the UK, addressing requirements on both listed companies and public sector bodies

What do we mean by corporate governance?

“Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society.”


Sir Adrian Cadbury’s foreword to the World Bank report on corporate governance eloquently expresses the underlying principles behind corporate governance. It is a useful starting point to remind us why corporate governance has become such a vital issue, combining as it does many of the predominant concerns of our time.

More prosaically, “corporate governance” has come to signify best practice in the running and control of companies. Although relevant to both the public and private sectors, it is widely regarded as being concerned with improving shareholder performance through effective and efficient management systems.

What does the concept mean to the UK and how well have we established best practice in corporate governance since the term was first coined in the early nineties?

This brief introductory section aims to give a historical perspective by tracing the emergence and evolution of corporate governance in the UK.

"corporate governance" has come to signify best practice in the running and control of companies
Corporate governance from Cadbury to Turnbull - an introduction

The emergence and evolution of corporate governance in the UK

In 1992 the UK was smarting from a number of corporate scandals and disasters, including the Maxwell Group raid on the pension fund of the Mirror Group of newspapers, the collapse of BCCI and the Polly Peck scandal. In the public interest, Adrian Cadbury was appointed to head up a committee to find ways of making public companies more accountable and to ensure they did not fall completely under the control of a single, powerful individual. The Cadbury Committee was established and corporate governance as a big-ticket issue had arrived.

Figure 1 charts the evolution of corporate governance in the UK from the early days of Cadbury through a series of reports, committees and published guidelines - Rutteeman, Greenbury, Hampel, Turnbull in the private sector and its counterparts in the public sector, most notably Nolan’s “Standards in Public Life”.

Figure 1: The evolution of corporate governance in the UK
Corporate governance from Cadbury to Turnbull - an introduction

It is interesting to trace the evolution. With the benefit of hindsight we can see how the emphasis and positioning of corporate governance has adapted to meet the prevailing concerns of the political and business environment.

The Greenbury committee was set up in 1995 at the request of the then Prime Minister, John Major, amid political controversy over the rapid rise in boardroom salaries and severance awards, particularly in the public utilities. Its task was to find ways of ensuring full disclosure in Annual Reports of directors’ emoluments and to give shareholders the opportunity to scrutinise, and if necessary block, such increases and awards. Its focus was on financial controls.

In 1998, Hampel saw corporate governance expanding its remit beyond financial controls to include operational and compliance controls as well as risk management.

The resulting Combined Code sought to make a positive contribution to business prosperity by producing one definitive set of principles for corporate governance. Its approach was collaborative and consultative as befits the late nineties period. Its broader emphasis reflected the growing interest in business sustainability and the responsibility of a business to all its stakeholders, including employees, shareholders and the community at large.

While in theory the Code was voluntary, it was made a requirement of the London Stock Exchange that all listed companies made a disclosure statement in their Annual Report and Accounts to:

- Report on how the Code’s principles were applied and
- Confirm compliance with the Code’s provisions or - where appropriate - to explain non-compliance.

It also called upon directors of listed companies to conduct, at least annually, a review of the effectiveness of their system of internal controls.

Traditionally the auditor’s role had been limited to the review of internal financial controls. The requirement to expand this to operational and compliance controls and risk management represented a significant change and challenge. Many companies were uncertain how to deal with this and as a result the Turnbull committee was established. Its task was to provide guidance to help companies implement the new requirements.

The Turnbull Committee’s “Internal Control Guidance for Directors on the Combined Code” was published in September 1999. While still far from being a “cook-book” for corporate governance implementation,

Key principles of the Combined Code

- An effective Board with a balanced spread of power between executive and non-executive directors
- Quality and objective input from non-executives
- Effective audit practices
- Monitoring of appropriate controls, including financial, operational and compliance controls and risk management.
- Preparation of an accurate statement of the financial health of the business
it does help explain what is expected of companies who wish to comply with the Combined Code.

At the same time, the London Stock Exchange set some firm deadlines by which listed companies were to comply with the Combined Code as explained in the Turnbull guidelines.

We will take a look at these deadlines and the readiness of UK listed companies to comply with them in the next section of the report.

The requirement to address operational and compliance controls and risk management represents significant change and challenge
How companies are measuring up to the Turnbull guidance

Deborah Graham continues her commentary on the evolution of corporate governance by assessing how well companies are measuring up to the requirements on them

The London Stock Exchange, in the accompanying letter to the Turnbull guidance, set specific deadlines for listed companies to comply with the Combined Code and Turnbull guidance. The deadlines were:

- Accounting periods ending on or after the 23 December 1999
  
  Full compliance
  or
  as a minimum, to state in their annual report and accounts that they have established the procedures necessary to implement the guidance or provide an explanation of when they expect to have those procedures in place (known as the transitional approach)

- Accounting periods ending on or after 23 December 2000
  
  Full compliance

What is the current state of play?

We have now passed the second of these deadlines. All companies reporting after 23 December 2000 are required to report full compliance in their next Report and Accounts.

Despite this fact, there are worrying signs that many companies are not taking the corporate governance guidelines seriously. It is certainly true that there has been a lot of activity under the corporate governance banner in 1999 and 2000 - but we question how successful it has been.

A corporate governance healthcheck survey carried out by Willis in December 1999 gauged the confidence of company secretaries in their readiness to comply. The results were encouraging. Almost two thirds rated themselves over 60 per cent compliant with the new corporate governance guidelines. However, while confident in the framework for reporting they had set there has been a lot of activity under the corporate governance banner in 1999 and 2000 - but we question how successful it has been.
How companies are measuring up to the Turnbull guidance

up, they were much less comfortable with their company’s compliance where it involved the buy-in of operational management and the embedding of internal control into existing business processes.

Little had changed in December 2000 when research (carried out by Deloitte & Touche in conjunction with the Institute of Directors) informed us that only 15% of FTSE-100 companies had publicly disclosed that they were fully compliant with the guidelines. At that time, nearly 80% of companies were said to be adopting only a minimal approach to implementing Turnbull’s guidelines.

This is a worrying statistic, if we believe that effective corporate governance as described in Turnbull is central to the success and failure of companies listed on our stock exchange.

Why is it that companies are still struggling to implement the guidelines?

Some companies will only recently have listed or be about to list on the stock exchange. They may have paid little attention to the corporate governance guidelines - accepting them as best practice, but of less relevance to the private concern. Their lack of readiness may indicate a slack regime before listing and provides a timely reminder of the need to refer to best practice whatever the funding structure.

Our main concern here is with longer term listed companies who despite being aware of the deadlines and requirements are still struggling to comply. In discussion with listed companies we have identified some common themes.

Ensuring that risk assessment is not just a one-off project

While companies in the main have carried out risk assessment activities and built a detailed business risk register - including risk controls, this has often been as a one-off project. They have not succeeded in integrating this risk assessment into the company’s regular management cycle and yet this essential if it is to form the backbone of an effective risk reporting and internal control system.

The one-off risk assessment exercise was itself painful for many companies, requiring as it did so much valuable management time. To ensure continuous assessment of risks and the subsequent adjustment of the control system, companies must now redesign management reporting processes and business planning processes to incorporate risk assessment activities. Changes to these processes will not take place overnight. They require buy-in from senior management and a period of “bedding in” before they will be effective.

companies must now redesign management reporting processes and incorporate risk assessment activities
How companies are measuring up to the Turnbull guidance

Drowning in a sea of risk information

The need to review, monitor and report on more than just financial controls has also caused problems as companies drown in the sea of risk information created as corporate governance initiatives take hold.

Companies have struggled to implement effectively the “processes that generate a flow of timely, relevant and reliable information from within and outside the organisation” (Turnbull, section 20).

Once the risk assessment and control systems are embedded in the regular management and operational cycles, information starts to be produced at a phenomenal rate. Senior management, the audit committee, the Board, all need to see an overview of trends and early warning signals for key risks, not voluminous reports. New reports and reporting systems need to be designed and implemented to gather, aggregate and report on risk information efficiently. Accordingly, the risk information software market is growing, but choosing the right software system will be only one small step in designing and implementing an effective risk information delivery process.

Figure 1: Internal and external risk information flows
How companies are measuring up to the Turnbull guidance

A corporate governance culture

The critical success factor for achieving best practice in corporate governance in the longer term will be the ability of a company to build risk assessment and control systems into the day to day operations of the company. Managing risk effectively must become "the way we do things around here".

It is therefore concerning that the main area where companies are not yet confident in their ability to comply with the guidelines relates to section 22 which states that "the system of internal control should be embedded in the operations of the company and form part of its culture".

Often the champion of the corporate governance initiative sits in the corporate centre and does not have the buy-in of the "process owners" and operational management who control the day to day operation of the company. Without operational management support, the corporate governance initiative risks being an expensive one-day wonder.

A Willis sponsored seminar in December 2000 for corporate governance leaders from the retail sector considered the question:

"How do we get operational management to give due consideration to corporate governance in a time of initiative overload?"

The obstacles to management buy-in that emerged will no doubt strike a chord with other companies:

- Operational management suffers from greater and greater demands on limited time and does not attach any priority to corporate governance. It is not easy to justify the time spent on corporate governance as it has little track record.

- Operational management has a narrow view of risk, believing it to be related primarily to insurance and finance. There is little understanding of the way risk information can enable informed decision making and thus allow business opportunities to be exploited more successfully. Risk is understood from the downside, not the upside.

- Operational management feels that internal audit and risk management have a policing role rather than one of adding value. If such departments (as is often the case) are the champions of corporate governance, it is difficult to get operational managers to open up and acknowledge risks to their businesses. Risk assessment is seen as time-consuming bureaucracy rather than adding knowledge to help business decision making.

Managing risk effectively must become "the way we do things around here"
How companies are measuring up to the Turnbull guidance

To overcome these problems, companies are therefore faced with a wide range of management challenges including cultural change, process redesign, marketing, information technology and communications strategy. Are risk managers and internal audit well equipped to meet these challenges alone or will others now take up the corporate governance challenge in the organisation?

It appears that three main areas will continue to be a challenge to listed companies (and privately owned companies) as they seek to comply with corporate governance best practice in 2001.

i) Integrating risk assessment into the management reporting and planning cycle

ii) Managing risk information efficiently and effectively

iii) Gaining buy-in from operational management so that the system of internal control is embedded into operational processes.

And finally… an international perspective

This article has dwelt on the problem experienced in implementing the new corporate governance guidelines. On a more positive note, we should remember that the United Kingdom is still considered as taking first place in corporate governance standards among the world’s developed nations. (Source: Leading Corporate Governance Indicators: An International Comparison. Davis Global Advisors). Progress made in the nineties in establishing open disclosure of directors’ salaries and in including non-executives on the Board has established this corporate governance lead.

Managers feel that internal audit and risk management do not add value
Turnbull - the role of the Board

Gordon Hill looks at the role of the Board in effective corporate governance and its links to the rest of the organisation

The Turnbull report, published on 27 September 1999, finally made clear what listed companies must do with regard to internal control and disclosure if they are to comply with London Stock Exchange requirements. Its publication was intended to put an end to the uncertainty that first arose when Cadbury was published back in 1992.

Having finally defined the requirements, the question on everyone’s lips is:

What are the practical things I need to do to comply?

Perhaps before answering this question we should just recap on some of the key requirements. The guidance can be grouped into three distinct areas, best shown in figures la and lb:

**The Board of Directors’ Role**

- Should conduct a review at least annually and report to shareholders that they have done so
- If they don’t have an Internal Audit function they should review the need for one
- Set policies on internal control based on the company’s risk profile, its risk appetite, its ability to manage risk and the cost/benefit of controls in relation to specific risks
- Seek regular assurance on system effectiveness
- Should receive and review regular reports on internal control
- If aware of any significant failing or weakness in internal control they should re-assess management’s ongoing processes covering internal control

**Management’s Role**

- Implement the policies set by the Board
- Reports to the Board providing a balanced assessment of the significant risks and the effectiveness of the internal control system in managing those risks
- Adopt openness of communication with the Board

**Timeframe**

**Accounting periods ending on or after 23 December 1999**

As a minimum state in their annual report and accounts that they have established the procedures necessary to implement the guidance or provide an explanation of when they expect to have procedures in place

**Accounting periods ending on or after 23 December 2000**

Full compliance
Deployment within the Business

- Internal control is embedded in the business processes by which a company pursues its objectives
- Remains relevant in a continually evolving business environment
- Enable application in a manner which takes account of circumstances
- Incorporated within its normal management and governance process (it should not be treated as a separate exercise undertaken to meet regulatory requirements)
- Facilitates the effectiveness and efficiency of operations
- Ensure quality of internal and external reporting
- Ensure compliance with applicable laws and regulations
- Since profit is the reward for successful risk taking the purpose of internal control is to help manage and control risk rather than eliminate
- All employees have some responsibility

How should the Board approach its role?

A fundamental component of the guidance is that the Board of directors is responsible for the system of internal control. To fulfil this obligation they must clearly provide some direction to the organisation on what is required and what the internal control system should achieve. Before deciding on the appropriate way to move forward, an initial risk assessment should take place. This will effectively provide a baseline from which the Board will understand the company’s current state and be able to decide on the best solution.

The Board needs to understand:

- The nature and extent of the risks
- The extent and categories of risk it regards as acceptable
- The likelihood of the risks materialising
- The company’s ability to reduce the incidence and impact on the business of risks that do materialise
- The cost/benefit of controls in relation to related risks

The Board must clearly provide some direction on what is required and what the internal control system should achieve
Turnbull - the role of the Board

Initial risk assessment

The need to understand all of the above before determining policy suggests the need to undertake some form of risk identification and analysis. This can be achieved through deploying strategic risk assessment tools such as risk profiling. Risk profiling is commonly undertaken via a series of workshops with management teams.

These workshops are designed to:

- Identify the key risks to the business objectives
- Assess the likelihood of the risks occurring
- Assess the potential impact should the risk occur
- Identify what controls are in place
- Assess the cost/benefit of the controls
- Lead managers to develop action plans that will reduce the level of risk.

Alternatively a structured interview approach could be adopted. This is particularly attractive if management time is at a premium.

Having completed the above it will be possible to identify the most significant risks to the business. By plotting these results on a simple matrix you can start to see which risks are potentially serious and those that are not (please note that risks that do not appear as significant may still be important at lower levels within the business).

Often a “Boston Box” is used (Source: Boston Consulting Group) with those risks in the top right hand box being judged the most serious. We believe Figure 2 gives a more accurate view because it takes the view that any catastrophic impact should be considered significant no matter how unlikely.

The cost/benefit of controls can be assessed using such techniques as Economic Value Added™ (EVA). This technique, developed by Stern Stewart, allows investment to be considered by taking account of profit/loss and balance sheet performance. This allows decisions to be made that are in the interest of shareholders and management alike and focuses on taking decisions that will enhance shareholder value and not just market share, earnings or profits.

EVA = after tax operating income less weighted average cost of capital x (total assets - less current liabilities)
The outcome of this activity will provide the necessary information for the Board of directors to understand the risks the company faces, the likelihood of them materialising, what actions are being taken and how effective controls are.

In addition to being able to identify specific risks they will also be able to identify categories of risk and assess the level of risk within each category, e.g. human resources, IT. Those businesses with the highest risk profile will also be identified. It is also important to identify inter-dependencies across the company and have the ability to aggregate single risks, dependent risks and risk categories.

The Board is now able to decide which risks and categories of risks are acceptable and which are not. The acceptability of risks will depend on the risk appetite of the directors and the risk tolerance of the company.

Some companies will spend time quantifying risk tolerance criteria, for others such criteria are determined primarily by entrepreneurial "gut feel".

Policy formulation

The internal control and risk policy may now be devised. The Board will need to consider the following:

- Shareholder implications
- Customer implications
- Employee implications
- The communities in which it operates
- Responsibilities and accountabilities
- Roles of internal audit/risk management
- How to avoid creating a risk averse culture

Reporting system

The Board should regularly receive reports and should make an annual assessment to allow it to make a public statement on internal control. What form this should take is largely up to individual companies

It is important to identify inter-dependencies and be able to aggregate risks
Turnbull - the role of the Board

Periodic reporting

Factors that may influence reporting systems are:

The major categories of risk

It may be appropriate for the Board to require periodic reports on those areas assessed as significant in the initial risk assessment. These reports would include updates on progress against action plans, re-assessment of the current risk level and forecasting of the post action plan risk level.

Which businesses have the most significant risk profile

Again periodic reports may be appropriate on specific businesses where the risk profile is regarded as high.

Single risks that could have a significant impact

If there are, the Board should ask how action plans are progressing and how the level of risk is being reduced.

Monitoring of inter-dependencies

The profile of interdependencies will change continuously as the business changes. Interdependencies between risks should be reported on periodically.

Management control certification

There should be a process whereby management confirm their confidence in the system of internal control. This can be achieved through simple paper-based certification, a process of control risk self-assessment (CRSA) or using a risk information software system. The way to do this largely depends on the culture of the organisation. Indeed, this whole process could be seen as an evolution. This would commence with a simple paper based approach in Year 1. Year 2 would see CRSA workshops helping to increase ownership or risk by management and in Year 3 a technology-based self assessment system could be deployed implying a high degree of ownership throughout the organisation.

The most efficient way for the Board to discharge this responsibility is through the establishment of an audit committee.

Annual assessment

The Board should undertake an annual assessment. This assessment should be based on reports received during the reporting year. The Board needs to assure itself that:

- Risks are being identified, evaluated and managed
- The internal control system is effective and in particular to review any failings and weaknesses in internal control
- Actions are being taken promptly to remedy any significant failings
- It has identified areas where further monitoring is required

Clearly it will be necessary for the Board to evidence their review. Therefore they should be presented with a report that brings together the issues reviewed throughout the year, identifies the significant risks and describes actions being taken to improve the level of risk. This report should be prepared by an individual such as the Company Secretary, the Chief Internal Auditor or the Risk Manager. In order to compile this report, data will need to be sourced from several areas within the organisation.

The effectiveness of risk reporting and the degree of confidence enjoyed by the Board will depend on relationships with, and the level of understanding of, the company’s management.
The Role of management

Gordon Hill focuses on the role of management in implementing policy and reporting information to the Board

To re-cap, the role of management as defined by Turnbull is to:

- Implement the policies set by the Board
- Report to the Board, providing a balanced assessment of the significant risks and the effectiveness of the internal control system in managing those risks
- Adopt openness of communication with the Board

Implementation of Board policy

Implementing Board policy is a primary role of the management of any company. In this respect Turnbull asks management to do what they will have done for many other Board policies in the past.

Turnbull states that Board policy should cover:

- The nature and extent of risks facing the company
- The extent and categories of risks that are acceptable for the company to bear.
- The likelihood of risks materialising
- The ability to reduce the likelihood and impact on the business of risks that do occur
- The cost/benefit of operating particular controls

For the management this translates into design, operation and monitoring of the internal control system.
The Role of management

What does the system of internal control need to look like if it is to deliver the Board’s requirements?

In the previous article, we discussed the use of risk profiling or structured interviews for the initial risk identification and analysis. This initial assessment is key in helping the Board establish its policies. Turnbull then talks about the need to embed internal control within the business processes.

This is the real challenge for management and ultimately will form the system of internal control going forward. A truly integrated system of internal control would see risks managed out of the business through the business processes. This means that methods of risk identification and assessment must be designed that can be deployed by people within the business. It also means that different techniques will be required depending on the process. Figure 1 shows the Willis Integration Model that has been developed over a number of years in support of the belief that true management of risk can only be achieved if the organisation and its staff are fully involved in the whole risk management process.

true management of risk can only be achieved if the organisation and its staff are fully involved in the whole risk management process

Figure 1 Integration model
The Role of management

If the organisation has already made use of risk profiling type techniques then it makes sense for these to be developed further for use with processes such as business planning or project risk management. The challenge is to make them useable by staff rather than to have an army of specialists crawling over the organisation.

At the strategic level, integration with the business planning process will produce the major output for the Board in terms of identifying the major risks, the likelihood and impact of those risks and the cost/benefit of control action. The other real attraction of targeting the business planning process is that if risks are identified at planning time, control actions can be included and funded as part of the business plan. This brings real focus on the issues and helps ensure they are managed effectively.

At the operational level this could mean that process owners and operators are involved in assessing the risks (up-side and down-side) within their own processes. If the process already exists, then a review will need to be undertaken to identify areas of risk and identify improvements. If new processes are being developed then it is possible to use risk identification and assessment to improve the design of the process. By doing this at the outset, the actual design of the process can be engineered to prevent the risk from occurring. This provides a great example of integration and demonstrates how risk can bring value to the organisation. The other great attraction is that it involves many more people from within the organisation in the risk process. This is important as a step towards developing a culture where people throughout the organisation are thinking about risks in their day to day working life and take actions to improve performance as a result. This is what Willis calls the managed risk culture. In our view it will see the primary roles of Internal Audit and Risk Management moving from hands-on doing and policing to supporting and advising the organisation’s people as they manage their own risks.

The options and techniques for achieving integration are discussed in more detail in a subsequent article.

Reporting significant risks to the Board and assessing the effectiveness of the internal control system

The management needs to be able to report on what the significant risks are, their likelihood of occurrence and the impact should they occur. This raises the question, “what is a significant risk?” The previous article introduced the need to establish a matrix that allows risks to be plotted against likelihood and impact. This allows the significant risks to be identified. We suggest that rather than simply identifying the significant risks, it is also necessary to establish the following:

- What will cause the risk to occur
- What will be the consequences should the risk occur
- What will be the impact measured in financial, customer, people and process terms
- What actions have been taken to improve performance and reduce the level of risk or exploit the opportunity
The Role of management

This information can be captured on a simple risk profile report such as that shown below as Figure 2

<table>
<thead>
<tr>
<th>Risk No</th>
<th>Specific Risk</th>
<th>Potential Impacts</th>
<th>Likelihood</th>
<th>Impact</th>
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<th>Priority Rating</th>
<th>Risk Category</th>
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Figure 2: Simple risk profile report

If risks are identified at planning time, control actions can be included and funded as part of the business plan

It is also necessary to provide the full picture for specific risks to the organisation. There must therefore be a mechanism for aggregating similar risks that appear in a number of business units across the organisation. Further analysis also needs to be undertaken on common causes so that consistent improvements can be deployed and the level of residual risk reduced once improvements have been implemented.

This information is important because it tells the Board what risk they still have and they will want to be assured that plans exist to manage residual risk should it occur whether it be through insurance, other risk financing options or contingency plans.

It is also important to show how the risk profile has changed and whether improvements have actually been successful in achieving a reduction in the level of risk. This will necessitate the production of comparisons and trend information and re-assessment of previously assessed significant risks.

The Board may also want to keep more regularly in touch with particular significant risks. For these risks, the management will need to monitor the situation by continually re-assessing the risk and reporting this and the effects of improvement actions.
The Role of management

By asking management to assess the effectiveness of the internal control system, we are asking management to assess their own performance in applying a system they have developed. For this to be done effectively, it requires openness and honesty and a culture that encourages people to look on failures as an opportunity to make improvements. It also requires processes that monitor the application of policies, processes and activities related to internal control and risk management.

Openness of communication with the Board

The requirement for the management to adopt an attitude of openness and honesty with the Board is key if Turnbull is to provide any real, demonstrable benefit. However, we fear that in some cases the relationship between the Board (particularly if mainly populated by non-executives) and the management may be one of distrust. Many managers still see the Board as a policing body that causes additional work and creates distractions that hinder progress. In their turn, many directors appear to delight in “catching managers out”. These attitudes need to change if we are to avoid Turnbull becoming a tick-box exercise delivering little value.

Perhaps Turnbull is the catalyst for making these behavioural changes occur. Where a state of openness does exist, we believe that Turnbull will not only deliver compliance with corporate governance requirements but will also provide real business benefit.

openness and honesty is required and a culture that encourages people to look on failures as an opportunity to make improvements
Practical approaches to embedding Turnbull

Gordon Hill discusses how the requirements contained within Turnbull to embed risk in operations and company culture can be achieved

In a previous article I discussed the role of the Board of directors as defined by Turnbull and offered some practical advice on how their role may be discharged. This was followed by an article focused on the role of executive management in implementing policy, reporting to the Board and communicating with the Board.

However, deployment within the business is the real key to using risk to achieve business advantage. I have written in the past about effective companies, which will be those who can achieve a culture where everyone in the organisation considers risk both upside and down side as part of their every day activities. This is a state I call the managed risk culture (figure 1).

Achieve this and you have delivered both the compliance and the performance components of Turnbull.

How do you achieve a managed risk culture?

To achieve a true state of continuous and effective risk management, risk needs to be embedded with business processes and training and seen as a tool that aids decision-making. For this to be achieved it is important that management embrace the concept and champion it as something that will provide benefit to the business. So far this sounds like most other change initiatives (“all needing to be led from the top”, “managers must embrace the concept” and “add value to the business”). What makes risk different is that you really can achieve these things. Returning to the figure of the integration model will help to explain how.
Practical approaches to embedding Turnbull

Figure 2 shows universal components of an organisation’s infrastructure. Companies demonstrating sound “risk interventions” throughout this infrastructure which are integrated with business processes, will truly have the tools to achieve the managed risk culture.

People’s attitude and behaviour are the other key components affecting achievement of a managed risk culture. People’s attitude towards risk can be encouraged to change through direct intervention in a change programme that may include:

- Recognising the need for change
- Analysing the current situation
  - internal: people, process, organisation, culture
  - external: competitor, market, customer
- Agreeing a vision for the future
  - internal: strategic direction, staff capabilities, process, organisational design culture
  - external: competitor, market, customer

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Practical approaches to embedding Turnbull

- Planning the change
  - look at the context (using tools such as force-field analysis, change equation, commitment chart)
  - consider degree of change (continuous improvement, benchmarking, re-engineering)
  - agree strategy for change
  - prepare detailed implementation plan covering all internal and external factors - do not underestimate human factors

- Implementing the change
  - unfreeze
  - change
  - refreeze

- Consolidating, monitoring and supporting the new situation
  - measure efficiency and effectiveness
  - communicate progress continuously.

Where should you begin?

In my experience the business planning process is the one activity within an organisation that attracts a consistently high level of attention from all management, is seen as key to taking the business forward and provides the driver for performance measurement. By taking the risk assessment process and embedding it within business planning, the planning process is enhanced. The figure below identifies the risk ingredients necessary to support the planning process.

![Diagram showing the planning process with risk management steps]

**Figure 3**
Practical approaches to embedding Turnbull

This approach will thus provide the springboard for the assessment of risk to become an integral part of the business and addressing risk will cease to be an external activity providing Turnbull compliance only. This is the first step in embedding risk within the organisation. Having achieved this, managers will start to discuss risk as an everyday issue, may use the risk assessment process to assist in the decision making process and could even include risk in their personal objectives. It is then possible to move on to look at other core processes such as project management, production and support. All will benefit from the introduction of risk within the process so that risk is proactively managed out by the process instead of risks occurring and the organisation having to deal with them reactively.

Training provides a wonderful vehicle through which to attain the dream of the managed risk culture. This can be done by providing specific risk training either as a general management tool or in relation to specific subjects such as project risk. It can also be effectively integrated within existing training programmes. Integration within training will ensure staff at all levels are exposed to and become familiar with risk and risk management techniques. Another advantage with training is that it provides an efficient way of communicating in a focused way with high volumes of people. These people will then promote risk through the organisation through their actions and behaviour, therefore speeding the cascade process.

Integrating risk within core processes really starts to see embedding occur across the organisation. This can be achieved either when processes are being designed or by reviewing existing processes. Clearly looking at risk as part of process design must be easier than reviewing the process once it is operational. Therefore the start point should be the design of a risk assessment process that dovetails with existing process design procedures. This would involve determining the risks at each stage of the process. In the past I have used a dependency modelling approach which maps the process and then determines probability and financial consequence of failure. Having understood the failure points it then becomes possible to focus improvements to the process so that potential failures are managed out as part of the process. This delivers a superior process much more likely to perform as required.
Practical approaches to embedding Turnbull

Integration with existing process is as important but presents different challenges purely because the process will be operational. You could embark on a programme of reviewing all processes for risk. However, I would guard against this approach on the basis of "if it ain’t broke don’t fix it". Wait until there is a problem within a process that suggests changes are needed: this is the time to introduce risk assessment and this will ensure the greatest value is delivered. If benefit is provided then staff will understand the value of the risk intervention. This all supports the change in attitude and behaviour. Once again I have used the dependency modelling approach to existing process review, achieving success working with staff involved in the process to identify weaknesses and design improvements. Once this activity is completed, potential failures are again managed out and the process becomes more robust.

Project management provides another area where integration of risk assessment will provide additional benefit. Most organisations have projects of one form or another and the majority do not deliver to plan (budget, time, quality). In my experience one of the major causes of this is the lack of risk assessment undertaken on the project. A number of methodologies exist to help project managers and team assess risk (PRAM, RAMP, RiskMan) but none provide real tools and techniques which the project team can use.

Attacking everything at once is not a practical solution. Organisations need a way of deciding where to integrate and when. Using a properly prioritised risk register to focus on the biggest issues is the most effective way of targeting effort. This way, the organisation will achieve the fastest payback, the greatest commitment and will have in their grasp a route map to the managed risk culture.

"if it ain't broke don't fix it". Wait until there is a problem within a process that suggests changes are needed
Impact on investors - and share price - of sound governance

Brian Shaw discusses the link between sound corporate governance and returns to shareholders

“A Company’s system of internal control has a key role in the management of risks that are significant to the fulfilment of its business objectives. A sound system of internal control contributes to safeguarding the shareholder’s investment and the Company’s assets.”

(Paragraph 10, Guidance for Directors on the Combined Code)

As discussed previously, contemporary corporate governance in the UK started with the Cadbury Report in 1992 and has gone through a number of up-dates in the 1990s, culminating with the Turnbull Report in September 1999.

Focus has shifted throughout the evolution, starting and finishing with the major emphasis on internal control, but taking in financial controls, directors’ roles & responsibilities and risk management along the way. Overall, however, the raison d’être of the various codes has not wavered from the original goal - shareholder protection.

In proving this, one needs look no further than the following extract from the author of the original code, Sir Adrian Cadbury, in writing a foreword to a report on governance by the World Bank says:

“It could be argued that international investors and capital markets are bringing about a degree of convergence in governance practices world-wide. But the standards they are setting apply primarily to the corporations in which they invest or to which they lend. These standards set the target, but it is one that is out of reach for the majority of enterprises across the world today. In the past these standards might have spread by a gradual process of economic osmosis. However, the pace of change today is such that to leave the raising of governance standards to natural forces might put areas of the world where funds could be put to best use at a competitive disadvantage in attracting them. Adoption of the report’s proposals offers enterprises everywhere the chance to gain their share of the potentially available funds for investment.”
Impact on investors - and share price - of sound governance

When undertaking a survey of company secretaries representing London Stock Exchange listed companies at the beginning of 2000, Willis found support for the widely-held belief that linking poor corporate governance with business failure; indeed the “Cadbury Code” in 1992 was set up to address poor business performance. The difficulty lies in finding a direct, definable link between specific good governance practices and improved performance, as evidenced by our findings at the time:

The Willis survey data produced the following analyses:

- **Growth in pre tax profit** of the participants over the last five complete years. The pre tax profit analysis showed no correlation to governance performance.

- **Earnings per share**...this analysis, on the other hand, produced a completely different picture.

  Information Technology companies did not figure in the top ten of this analysis, the positions being claimed largely by established "old economy" companies. It is interesting to note that seven “old economy” companies featured in the top ten.

More recent research by McKinsey & Company in their Corporate Governance Investor Opinion Survey in June 2000, generated some interesting statistics:

- Three-quarters of investors say Board practices are at least as important to them as financial performance when they are evaluating companies for investment.

- Over 80 percent of investors say they would pay more for the shares of a well-governed company than for those of a poorly governed company with comparable financial performance.

- The actual premium investors say they would be willing to pay for a well-governed company differs by country:

  - UK 17.9%
  - US 18.3%
  - France 19.8%
  - Germany 20.2%
  - Italy 22.0%

However it should be noted that the focus of the survey was more to do with the Board structures and their contribution to sound governance practices than with matters of company-wide internal control and risk management.
Impact on investors - and share price - of sound governance

Other independent research confirms that the difficulties in establishing a direct, definable link between specific good governance practices and improved performance lie primarily in defining and then investigating a wide and complex amalgam of issues.

They include:

- The period over which the measurement should be taken
- Which financial criteria should be used, e.g. ROCE, total shareholder value, pre-tax profit etc.
- Changing accounting standards which are not universal
- The impact of macroeconomics, finance and politics, along with social and cultural issues

These complex factors will probably mean that for the foreseeable future, attempts to relate governance to performance will remain qualitative rather than quantitative.

However, clearly investors are taking note of governance practices, if for no other reason than to avoid involvement in corporate scandals of the past. Furthermore, whilst the notion of governance has been on the corporate scene since the early nineties, the integrated nature of the Combined Code and the associated Turnbull guidelines are still relatively new. Certainly, we believe that good governance creates a stimulus that helps management to focus on opportunities as well as threats. We further believe that good governance can improve business performance by changing the way that people think and behave. In our experience, there is a strong belief in many organisations that only through such change will competitive advantage and shareholder value be maintained.

good governance creates a stimulus that helps management to focus on opportunities as well as threats
The environmental, health and safety implications of Turnbull

Barry Holt sets the management of hazards and the associated obligations of directors in the context of corporate governance

Background

The publication of the Turnbull Report and the recommendations for the implementation of the Combined Code of Corporate Governance have generated new opportunities for the management of environmental, health & safety risks within UK businesses. At the same time they have also led to a number of misconceptions as to the degree to which these issues form part of the corporate governance process. Both the opportunities and the misconceptions have arisen from the report’s statement that the ‘Business Risks’ which need to be considered, extend beyond those which traditionally fall within the remit of ‘Internal Audit’. In this context it specifically mentions health, safety and environment.

Almost simultaneously, the UK Government published proposals for the introduction of a new criminal offence of ‘Corporate Killing’. These proposals resulted from public concern arising from a number of major incidents where it was not possible to hold any individuals accountable. Under these proposals, directors of a company can be held criminally liable should death occur through the failure of standards of health & safety management to meet ‘reasonable’ standards.

The result of these two initiatives has been to distort the importance which is being attached to health, safety and environmental issues and it is vital to understand fully the true implications. The UK Health & Safety Commission in their Guidance Note HSG65, Successful Health & Safety Management, have stated that “a positive health & safety culture needs to be developed in which health and safety objectives are regarded by all as aligned to other business goals. This can only happen through the active and continued commitment of senior managers and directors.” Here we have three separate drivers for improved health & safety management which if considered objectively, are completely compatible with each other and with good business performance.

Implications

Traditionally, Corporate Governance has been seen as referring to financial risks which can impact the business objectives of the enterprise. This view has been enhanced by high profile scandals which have produced the pressure to improve the financial stewardship of businesses. As a result, health & safety issues in particular have been relegated to matters which are dealt with at an operational level. To some extent, environmental risks have not suffered from this as there have been a number of environmental incidents which have hit the headlines and this has been supported by the change in philosophy to one of ‘the polluter pays’. Pollution incidents such as those involving Exxon Valdez, the Braer and Milford Haven and the resulting public reactions are cases in point.

This ‘downgrading’ of health & safety issues conflicts with the philosophy of the UK and EU legislation which expects the topic to be on the agenda at the top level within organisations. It is expected that objectives will be set and monitored at main Board level.
The environmental, health and safety implications of Turnbull

Turnbull, if correctly interpreted, has attempted to correct this situation. This requires organisations to take the following steps when reviewing the risks from health, safety & environmental issues (HSE):

- Include HSE risks within the scope of the corporate risk review
- Evaluate the impacts on the business
- Where these are ‘significant’ they should be included in the list for attention by the Board
- When adequate controls have been implemented these should be monitored and reviewed at Board level.

These steps give rise to some important points which are often overlooked or exaggerated depending on the viewpoint of the individual. In particular I should like to raise the following considerations:

(i) When HSE factors are included in a corporate review, it is important that a competent person conducts this. In my experience a review of these risks by internal audit is often a simple ‘tick box’ which can easily overlook issues of potential importance. The way the reference is made in Turnbull actually implies that HSE factors may be outside the scope of internal audit.

(ii) Conversely, when solely the specialist carries out the review there is a tendency to exaggerate the impact on the overall business. This indicates a need for closer liaison between HSE managers and internal audit than often exists. To correct this problem will often require a change in attitude by both parties.

(iii) Evaluation of the risks in terms of business impact needs to be carefully considered. One of the problems is that most of the risks considered as part of corporate governance can be readily expressed in financial terms. This is not always the case with HSE and this problem is often increased by the reluctance of specialists to think in financial terms. It is therefore essential that the organisation develops a model to establish the ‘true’ cost of workplace injuries which is relevant to their own business. The Health & Safety Executive have produced a model which suggests that the hidden cost is 8 to 36 times as great as the immediate cost. However, our experience suggests that a range of 4 to 8 times is more realistic.

(iv) In addition to the immediate financial impact, a poor record of employee injury or environmental incidents will have an impact on the reputation of the organisation which may in itself have been identified as a key threat. Indeed a company’s image is likely to be more vulnerable to poor health & safety performance as a result of the ‘name and shame’ policy recently adopted by the Health & Safety Executive. Under this policy the names of organisations subject to prosecution or enforcement notices are now being published.
The environmental, health and safety implications of Turnbull

Conclusions

To enable an organisation to be in a position to reassure stakeholders that HSE risks have been adequately considered, it is essential that the following criteria are in place:

- There needs to be a good liaison between internal audit and the corporate HSE function(s) to ensure that the consequences of HSE failures are fully understood and that these are related to the business objectives. These should involve the corporate HSE audits being closely aligned with the internal audit process to allow the key issues from the former to be incorporated in the broader process.

- There is a need to establish an incident costing model which is specific to the organisation and which is agreed at all levels. This will permit a more valid comparison between different risks to be carried out.

- However, while the above point is an essential factor, it must be remembered that with HSE issues there are legal minimum standards to be met, such as ‘reasonably practical’ for health and safety and ‘best practical means’ and BATNEEC (best available technique not entailing excessive cost) for environmental protection. These are legal minimum standards but are not incompatible with the use of financial measures as they imply that cost/benefit analysis is carried out.

- Also, when protecting the workforce or the environment there is a moral factor which must be considered. This is now being reinforced by the proposed Corporate Killing offence under which individual directors may be held criminally liable. Ignorance of a problem is unlikely to be accepted as a defence as corporate governance requirements mean that if the risk is sufficiently great, the directors should be aware. In fact this is not new as the Health & Safety At Work Act already holds individual directors, officers and company secretaries liable if an incident occurs through their "...consent, connivance or neglect."
Maureen McLean describes a practical system for managing upside risk and exploiting business opportunities.

"The Board should present a balanced and understandable assessment of the company’s position and prospects."

Principle D.1, The Combined Code

**Profit from managing the opportunities**

**Introduction**

In recent years and as a result of positive changes in corporate governance regulations and guidance, the management of risk has evolved considerably. These improvements have been designed to improve shareholder value. Figure 1 summarises some of the latest enhancements using the Turnbull report as a reference point.

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### Turnbull Implication

- ‘Should identify and evaluate the risks by the company’.
- ‘be capable of responding quickly to evolving risks to the business arising from factors within the company and to changes in the business environment’.
- ‘include procedures for reporting immediately to appropriate levels of management any significant control failings or weaknesses that are identified together with details of corrective action being undertaken’.
- ‘be embedded in the operations of the company and form part of the culture’.

### Risk Management Application

- Company identifies ‘real’ risks
- Shareholders have the confidence that a company identifies those risks that could damage their investment in a company.
- Company identifies new/changing risks as they arise.
- Shareholders have ‘peace of mind’ that company is considering risk more than once throughout the financial year.
- Company statement on compliance
- Shareholders have another source of information on which to consider their investment decision.
- Company embeds their risk management in ‘everyday’ business management process
- Shareholders can be satisfied that key risks are being considered as part of ‘day to day’ objective setting and running of company.
Profit from managing the opportunities

Some of the most forward thinking companies have now progressed their management of risk further, considering risk in wider context. Risk is not only about downside - the threats to the business objectives, but also the ‘upside’ risks - the opportunities arising out of risk which will support the achievement of business objectives. Sound corporate governance is coming to mean not only the control of downside risks, but also the exploitation of upside risk.

We show how by deploying certain risk tools and techniques a company can manage its future earnings stream, and thus manage for shareholder value.

New Approaches in Risk Management

Traditionally, risk assessment, commonly termed risk profiling, has been a semi-quantitative approach used to identify risks to the achievement of a company’s business objectives. The risk assessment may focus on the identification of downside risks, assessing these risks against the likelihood and impact criteria based on the potential negative impact of these risks occurring. Key risks would be identified through a prioritisation process, and may then be controlled by identifying actions that will reduce the likelihood of the risk occurring and/or the impact if the risks were to occur.

Using this traditional approach, which focuses on downside and control implementation, risk managers find it difficult to achieve buy-in from operating units, especially in entrepreneurial organisations. Indeed, using such a one-sided process may be a risk in itself, stifling innovation and growth.

![Figure 2 Traditional risk assessment](image-url)
Advancements in this traditional approach further to improve the value to shareholders would include consideration of the opportunities arising from a process that also considers upside risk.

By implementing this concept, a company may find the risk assessment process becomes more palatable with line managers recognising that the process offers greater support in achieving their objectives and driving earnings improvements (figure 3).

A typical example of a company adopting a balanced approach to risk assessment incorporating upside risk is demonstrated opposite.

Figure 3 Best practice risk assessment

---

**Case Study**

A fast growing multinational logistics company was planning an initial public offer on a listed stock exchange, using the proceeds to establish a bridgehead in a new market. It wanted to implement a robust risk assessment process aligned to its existing business planning and budgeting process, which supported business expansion. As a result of the share offer, it needed to ensure that it complied with the Combined Code.

Accordingly, a workshop-based risk identification and measurement process was deployed which was aligned to the company’s existing processes. The approach captured and measured downside and upside risk. The outputs from the exercise included:

- An action plan for managing the key risks
- An action plan for exploiting opportunities identified in the assessment process.
- Descriptions of systems and processes to enable compliance with the Combined Code of Corporate Governance
Profit from managing the opportunities

Upside risk assessment process

The process used in the situation described above involved five key steps, which we expand upon below.

Step 1 - Process Context

- Document the business objectives of each of the business units involved in the exercise.
- Set the risk scoring criteria, consistent likelihood criteria, a separate negative and positive impact criteria (see figure 4A - Likelihood, 4B - Impact example likelihood and impact scoring criteria).
- Set financial tolerance criteria aligned to the risk scoring criteria

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<tr>
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<th>Degree of Likelihood</th>
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<tr>
<td>5</td>
<td>VERY HIGH</td>
<td>This uncertainty is very likely to occur or The uncertainty is occurring at present</td>
</tr>
<tr>
<td>4</td>
<td>HIGH</td>
<td>This uncertainty is likely to occur</td>
</tr>
<tr>
<td>3</td>
<td>MEDIUM</td>
<td>This uncertainty may happen</td>
</tr>
<tr>
<td>2</td>
<td>LOW</td>
<td>This uncertainty is unlikely to occur</td>
</tr>
<tr>
<td>1</td>
<td>VERY LOW</td>
<td>This uncertainty is very unlikely to occur</td>
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Figure 4A Sample likelihood scoring guidelines

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<th>Finance</th>
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<th>Services</th>
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<tr>
<td>- Impact +</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Moderate</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Impact +</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Impact +</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Catastrophe / Major</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>- Impact +</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Significant</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Impact +</td>
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</tr>
<tr>
<td>Moderate</td>
<td></td>
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<tr>
<td>- Impact +</td>
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<td></td>
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</tr>
<tr>
<td>Low</td>
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<td>- Impact +</td>
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Figure 4B Sample impact scoring guidelines
Profit from managing the opportunities

Step 2 - Risk Identification
- Implement structured process, identifying the key risks to the company’s business objectives, both the threats and opportunities.
- Record these risks on a standard format.
- Categorise these risks to enable further aggregation and analysis.

Step 3 - Risk Assessment
- Deploy structured assessment of key risks to the Company’s business objectives, both the threats and opportunities, using the risk scoring criteria (likelihood and positive or negative impact).

Step 4 – Risk Prioritising and Risk Mapping
- Plot both positive and negative risks on a double-sided matrix to produce a risk profile. (Figure 5A shows a typical risk profile for a business unit).
- Prioritise the key risks for action planning based on agreed risk tolerance criteria (Figure 5B shows an example risk tolerance).

Step 5 - Action Planning
- Action plan the key risks (a sample key risk action plan is shown in figure 6A). The action plans will include tasks, deliverables, measures, milestones and accountabilities.)
Profit from managing the opportunities

Uncertainty: New/undertrained employees makes error causing damage

Actions
1. Rigger certification for tank cleaners and forklift training
2. Ensure minimum level experience of employee mix
3. Training video (develop own specific video for requirements) for new and existing employees
3.1 Training deployment
3.2 Employee testing
3.3 Documenting results
4. Orientation training (including customer care training)
5. Recruitment aptitude testing (review what currently doing and what needs to be included)
6. Procedure that visually identifies experience level (e.g. different coloured hard hats for trained staff)

Figure 6A Action plan

- Re-score risks based on post-action plan implementation to determine:
  - Whether the likelihood and/or impact of downside risks have been reduced to an acceptable level
  - Whether the likelihood and/or impact of a positive risk has been increased or consolidated following action planning.

A sample post-action planning profile is shown in figure 6B. This shows those key risks that have been action planned.

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<th>Measures</th>
<th>Milestones</th>
<th>Accountability</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Certificated employees</td>
<td>reduced errors increased customer satisfaction</td>
<td>1 April 2001</td>
<td>J Roberts</td>
</tr>
<tr>
<td>2. Minimum level of experience exists</td>
<td></td>
<td>Ongoing</td>
<td></td>
</tr>
<tr>
<td>3. Bespoke training video</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Improved orientation program, including customer care</td>
<td></td>
<td>1 Nov 2000</td>
<td>D Jones</td>
</tr>
<tr>
<td>5. Aptitude testing requirements set</td>
<td></td>
<td>1 July 2001</td>
<td></td>
</tr>
<tr>
<td>6. Visual awareness of experience levels</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Original Score</th>
<th>Post-action planning score</th>
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<tbody>
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<td>L</td>
<td>P</td>
</tr>
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<td>4</td>
<td>-2</td>
</tr>
</tbody>
</table>

Conclusion

A company’s risk assessment process may support its future growth plans and associated earnings stream, and thus increase shareholder value. Aligning the risk assessment process to the company’s objectives and considering the company’s risk tolerance may improve the existing risk assessment process. However, probably most importantly, the process’ ability to consider upside risk is a key ingredient in securing managers’ commitment to taking risk-based decisions and turning a conformance exercise into a performance opportunity.
About Willis

Willis' business is risk. Recognised globally as one of the world's leading insurance intermediaries, it has a long history of understanding the sources and measurement of risk and the actions which companies can take to reduce their exposures. In 1997 it acquired the international management consultancy business of Richard Oliver International with its 20 years experience of managing risk within companies.

These two traditions have been brought together in the Business Risk Practice, the centre of excellence for business risk within Willis.

The general management focus of the Business Risk Practice allows us to help clients put threats to their business objectives into overall perspective. Our approach is to help clients help themselves by embedding risk assessment, management and reporting into their existing business processes, from corporate strategy to supply chain management, from acquisition assessment to quality improvement. This approach enables clients to develop bespoke strategies for managing risk and ensures that risk management becomes an ongoing process rather than a one-off event.

Most recently, the Business Risk Practice has been helping companies comply with corporate governance codes and regulations, helping them transform conformance activities into performance opportunities.

The Business Risk Practice has a team of over thirty UK-based consultants with a wide range and depth of practical experience and skills. Other specialists working throughout Willis complement this expertise. Project teams are created, sometimes on a global basis, to deal with new and emerging client challenges.
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