



## Enterprise risk management – keys to sustainable programmes

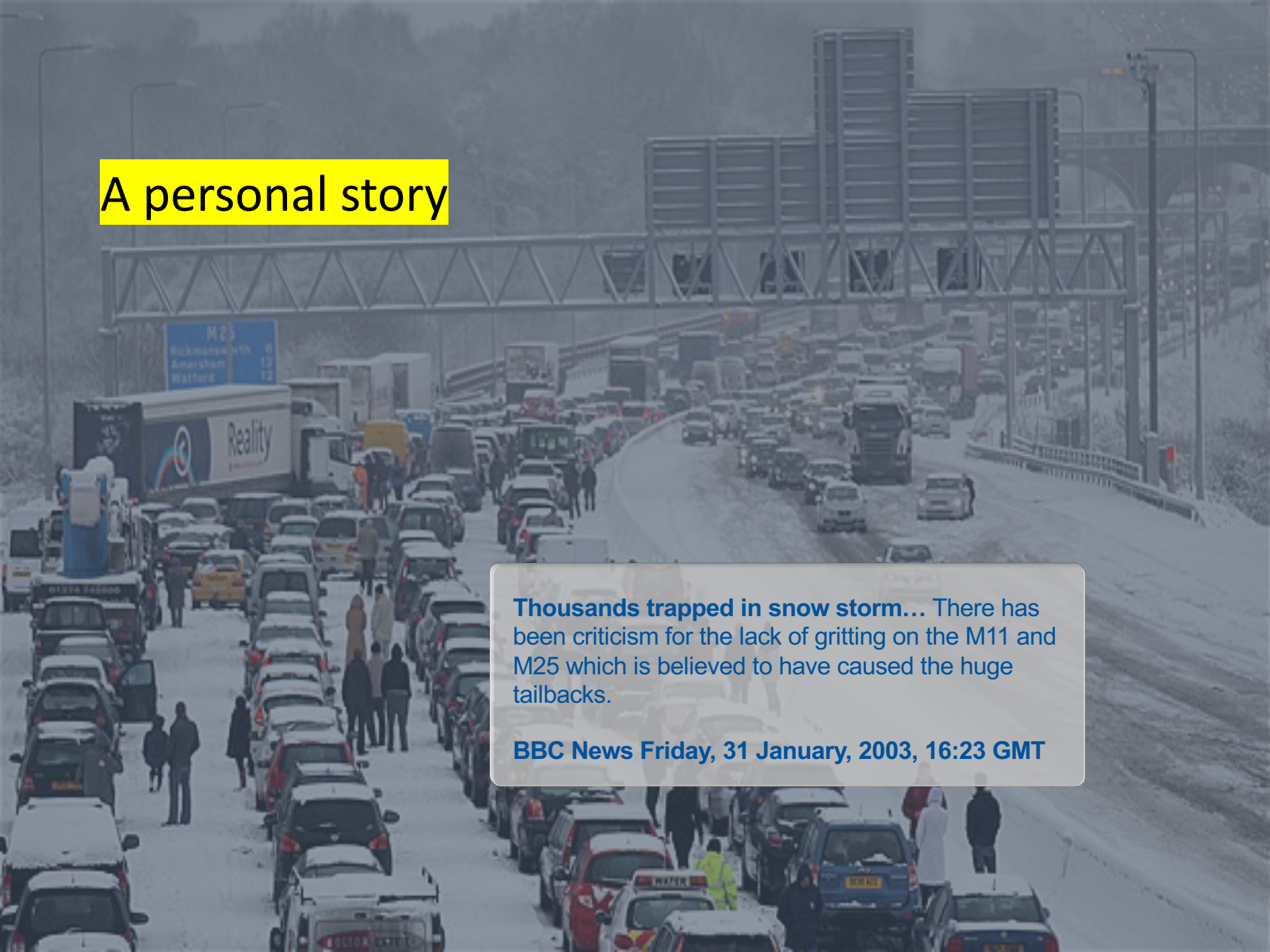
Professor David Denyer &  
Hazel Whitaker

### ERM FORUM - THE AGILE PROFESSION

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# A personal story



**Thousands trapped in snow storm...** There has been criticism for the lack of gritting on the M11 and M25 which is believed to have caused the huge tailbacks.

**BBC News Friday, 31 January, 2003, 16:23 GMT**



# A familiar story

ERM HAS COME A LONG WAY:

Governance and regulation ☒

Risk management systems ☒

Measuring and monitoring ☒

Procedures and compliance ☒

Business continuity plans ☒

Audit, investigations and action planning ☒

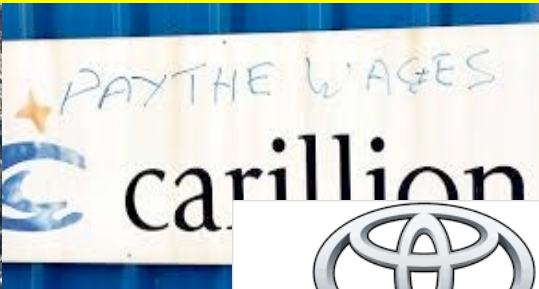
Fire fighting / emergency response ☒

...but

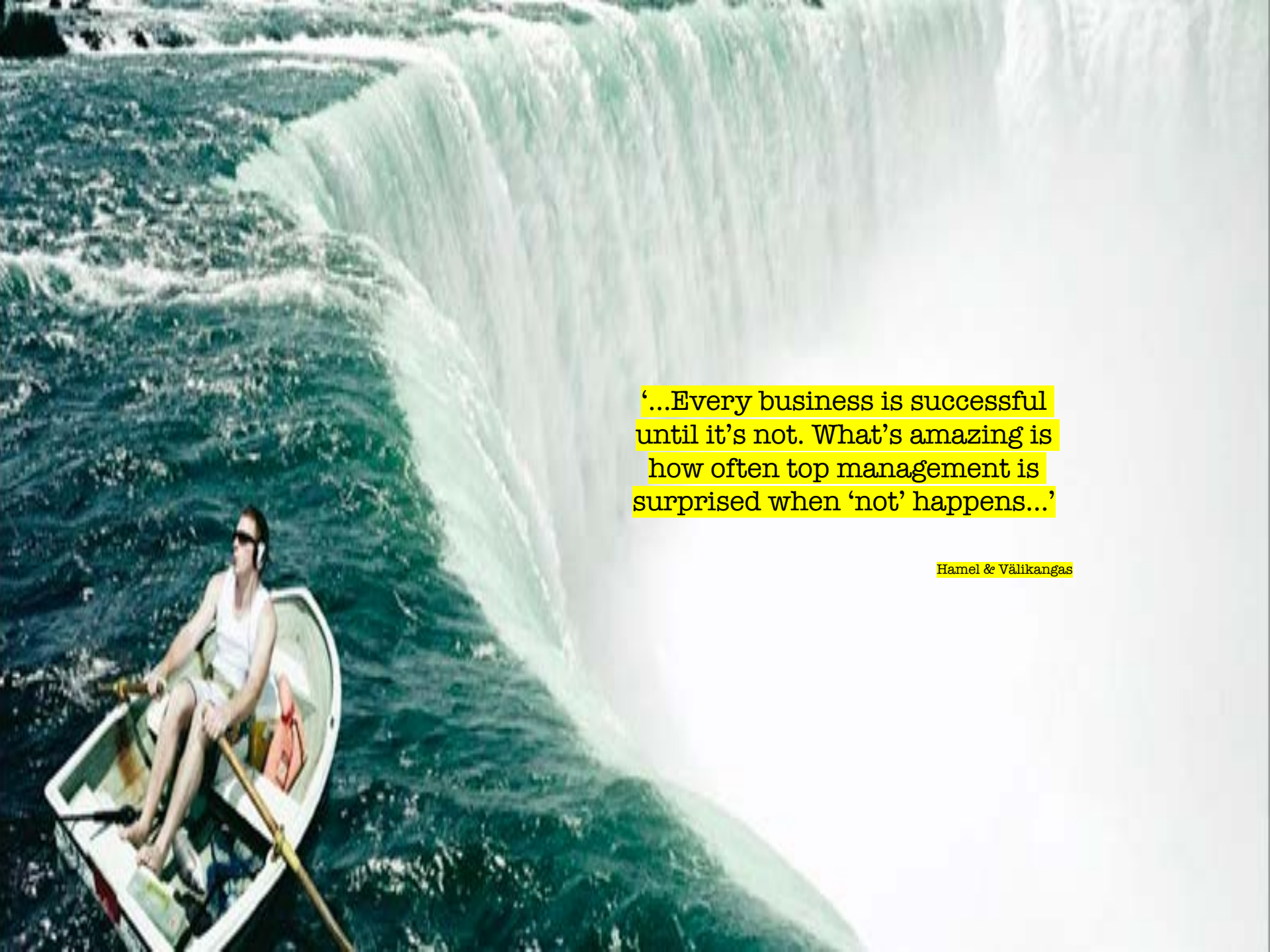




...we still have 'surprising' events







‘...Every business is successful until it’s not. What’s amazing is how often top management is surprised when ‘not’ happens...’

Hamel & Välikangas



## Organization 1

Despite numerous warning signs and alarms, a leak went unnoticed for at least eight months - 83000 litres of highly toxic liquor

£2million fine  
Plant shutdown for 24 months  
Cost of delay of £87m

Situation

Problem

Explanation

Outcome

Flagship processing plant  
Built to the highest standards and attracted the best people  
Defense in depth – operational safeguards

Illusion of control  
“new plant culture”, despite being 15 years old  
“material losses of this magnitude could not have occurred and that it had to be an error in paperwork”



## Organization 2

...

Volatility in the market  
(Brexit vote)

Customer demand for  
anytime, anywhere services

Availability of standardized  
offerings at lower cost

Losses  
unprecedented in  
its 50 year history  
10% workforce  
made redundant

Situation

Problem

Explanation

Outcome

Knowledge-based business

Customised services

Bespoke facilities

Devolved business units - responsive to  
customer needs and issues

Highly skilled, and empowered professional  
staff who valued autonomy

High fixed costs in a  
volatile market

Inability to scale the  
business to take  
advantage of the  
growth in the high  
volume, low cost  
market

## Organization 3

...

Management's initial reaction - 'that's cute—but don't tell anyone about it', Change meant "smashing the company's golden egg to make way for the new."

Attempted to reinvent itself  
Global workforce decreased by almost 90%

Shares fall by more than 80%, partly because the company struggles to meet pension costs.

Eventually filed for Bankruptcy

Situation

Technology consumer and office products

Once held over 80% market share

Invented new disruptive technology that had the potential capability to replace its' established business.

It (correctly) estimated that it would take some time (10 years) to do so

Problem

Explanation

The company stayed closer to its core businesses, whereas its competitors embraced the new technology

Outcome





## Organization 4

Protests, bans and legal action  
regarding licensing and employee  
rights around the world.

Accusations of tax evasion

Allegations regarding  
discrimination in its United States  
and European operations.

Valuation knocked  
down by \$22 billion

CEO resigned after  
a shareholder revolt

### Situation

Disruptive on demand  
transportation provider  
Owns no vehicles but still delivers  
over 1 million journeys a day  
Within 10 years became one of  
the highest valued private start-up  
companies in the world.

### Problem

### Explanation

Lack of governance  
mechanisms including  
monitoring the actions,  
policies, practices, and  
decisions of the company,  
their agents, and affected  
stakeholders.

### Outcome

All four failures were created by strategic tensions:

1. Controls without mindful action
2. Responsiveness without efficiency
3. Optimisation without innovation
4. Innovation without governance



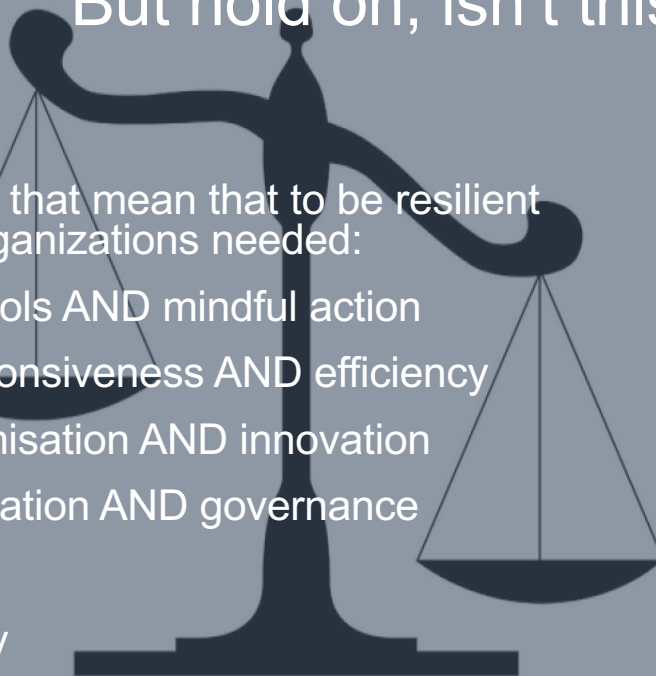


But hold on, isn't this paradoxical

Wouldn't that mean that to be resilient  
those organizations needed:

1. Controls AND mindful action
2. Responsiveness AND efficiency
3. Optimisation AND innovation
4. Innovation AND governance

...exactly





Organizations are rife with tensions...

Either A OR B

To both A AND B simultaneously

Tensions “should be viewed not as threats to consistency and coherence, but as opportunities for creative organization development, learning, and renewal.”

Carrol and Rudolph, 2006



# What is the Logic of ERM?

(mindset, mental model)

## Progressive

(production, opportunities, achieving results,  
enable, facilitate, human action)

Making sure things go right

## Defensive

(prevention, threats, protect results, stop, avoid,  
defences, mitigate, human error)

Making sure things don't go wrong

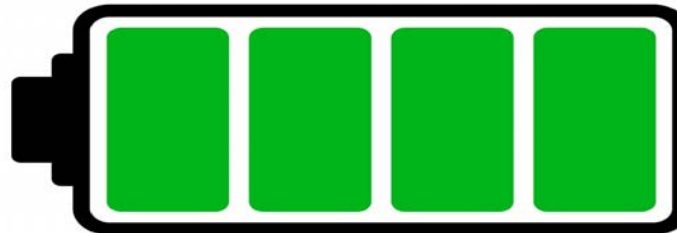
# What is the Logic of ERM?

(mindset, mental model)

## Progressive

(production, opportunities, achieving results,  
enable, facilitate, human action)

Making sure things go right



ERM ensures that  
there is as much as  
possible of this

## Defensive

(prevention, threats, protect results, stop, avoid,  
defences, mitigate, human error)

Making sure things don't go wrong



ERM ensures that  
there is as little as  
possible of this



# What is the Logic of ERM?

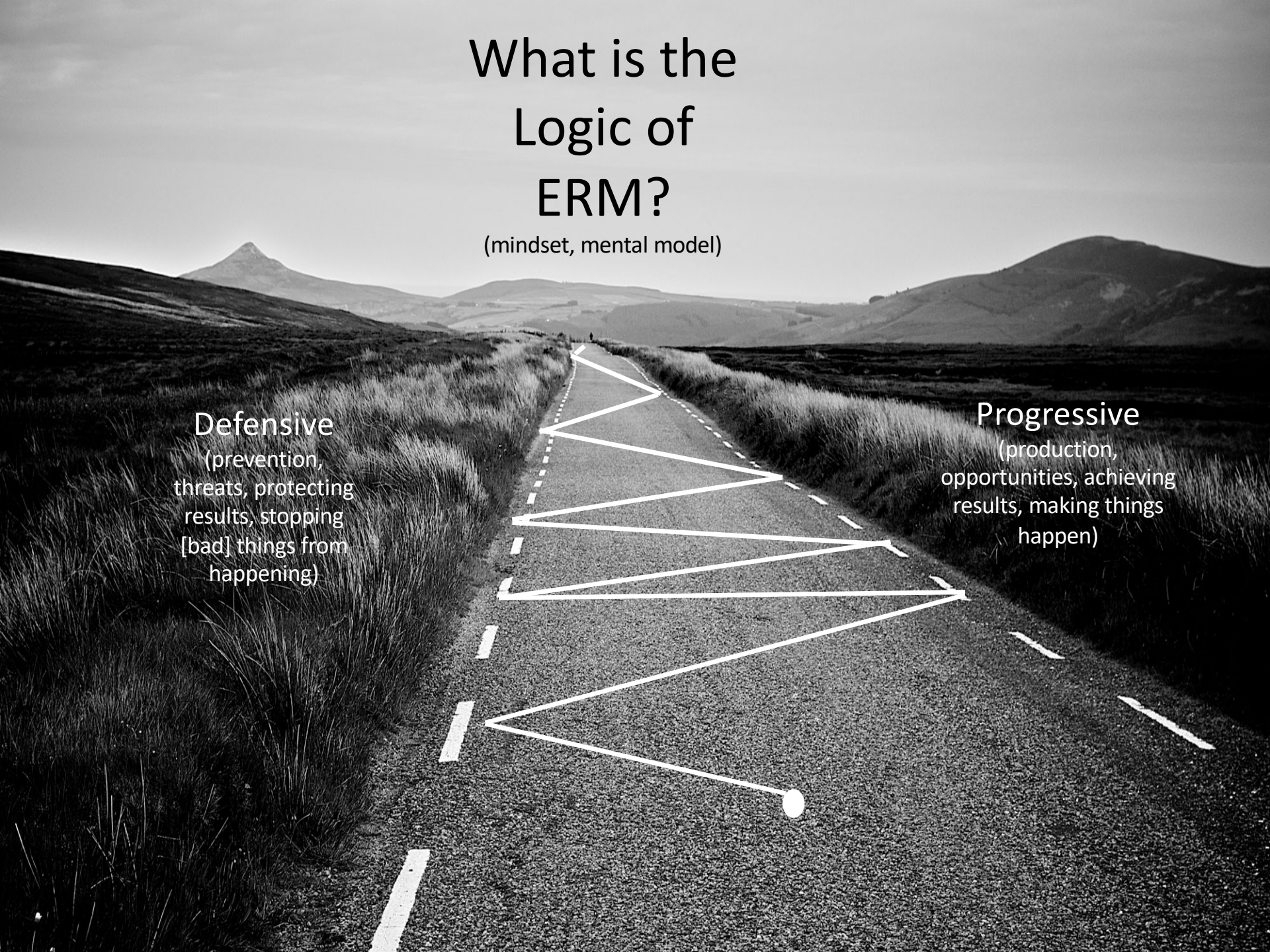
(mindset, mental model)

## Defensive

(prevention,  
threats, protecting  
results, stopping  
[bad] things from  
happening)

## Progressive

(production,  
opportunities, achieving  
results, making things  
happen)



# What underpins ERM design?

(systems, routines, information)



**Consistent**  
(standardise, comply,  
monitor, control,  
regulate)

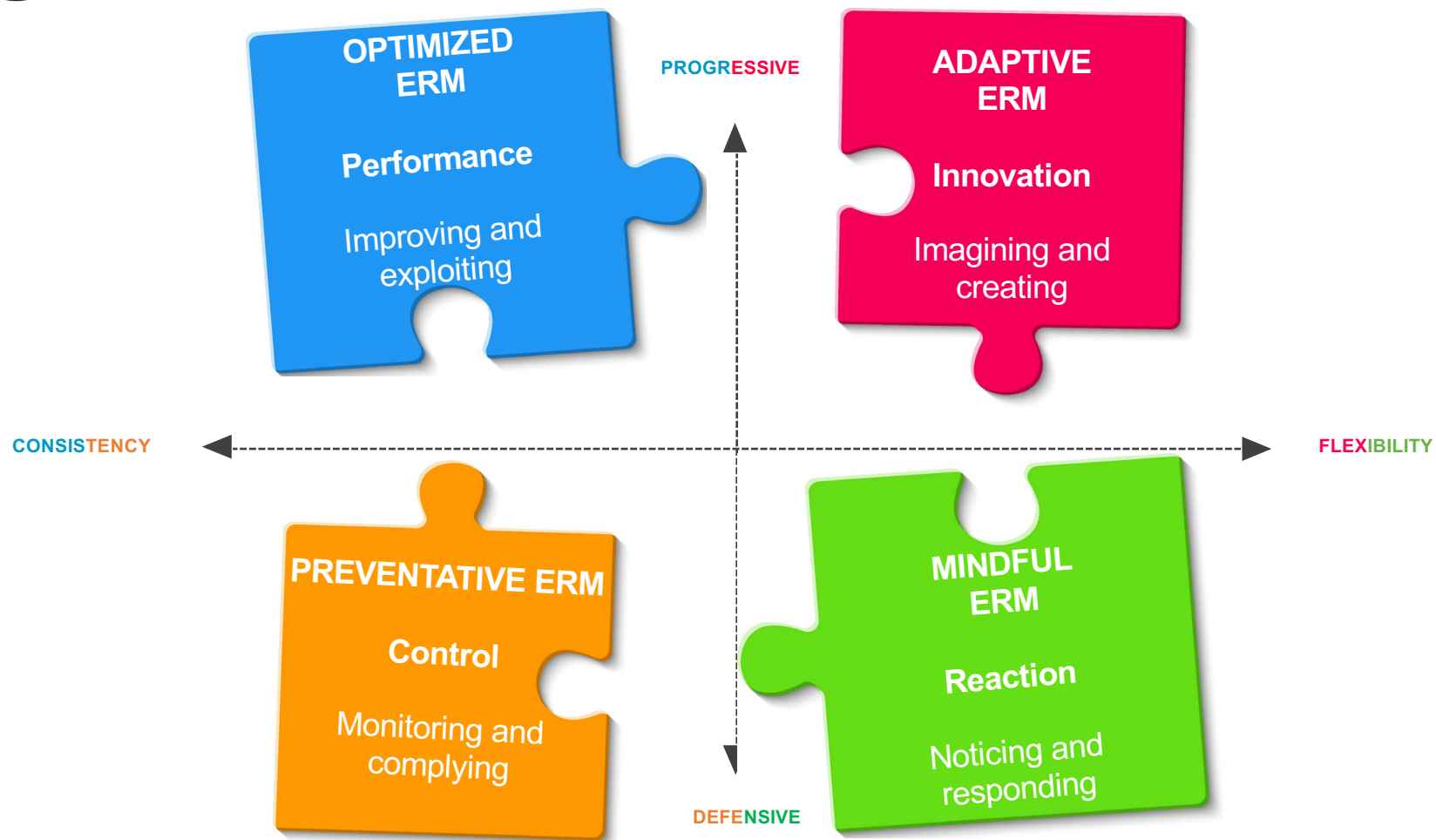


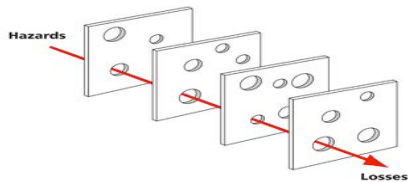
**Flexible**  
(absorb, respond,  
mitigate, bounce back)



**Agile**  
(adapt, transform,  
morph, bounce forward)







### Type 1: Optimized ERM

*Concern.* ERM ensures consistent and repeatable functioning of day-to-day operations and delivery required service levels and quality.

*Key design issue.* ERM + physical barriers and safeguards to protect the organization from threats. Risk assessed, managed and overseen in traditional function and capability areas.

*Implementation characteristics.* Concern with consistent, standardized processes, clear roles and responsibilities, rehearsed contingency and continuity plans.

*Implementation strategy:* Tends to be top down, focusing on governance, procedural compliance and monitoring.

Defensive

Consistent





### *Type 2: Mindful ERM*

*Concern.* ERM ensures competent people anticipate and respond to emerging risks and unfamiliar or challenging situations, and adapt quickly when, not if, the unexpected happens.

*Key design issue.* ERM has local flexibility and encourages agile ways of working. ERM helps people to sense environmental change and respond rapidly and creatively to 'bounce back' from problems.

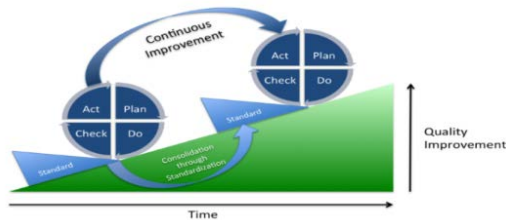
*Implementation characteristics.* Concern with education, skill and attitude development. Dynamic risk assessments, problem solving and expert improvisation

*Implementation strategy:* Tends to be bottom-up, attitudinal and empowerment focused.

Defensive

Flexible

## Progressive



## Consistent

### Type 3: Optimized ERM

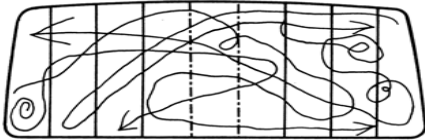
*Concern.* ERM ensures continuity of service provision to serve present customers and markets efficiently and effectively.  
Reduce impact = business disruption (downtime).

*Key design issue.* Impact tolerance levels for the firm's critical services. ERM at front to back business services/ customer journey level. Centralization of risk management functions to reduce both cost and error.

*Implementation characteristics.* Concern with continuous improvement, process optimization and operational excellence/operational resilience. Rigorous testing of critical areas.

*Implementation strategy:* Tends to be top down, focusing on shared objectives underpinned by recognition and reward systems.





## Flexible

### *Type 4: Adaptive ERM*

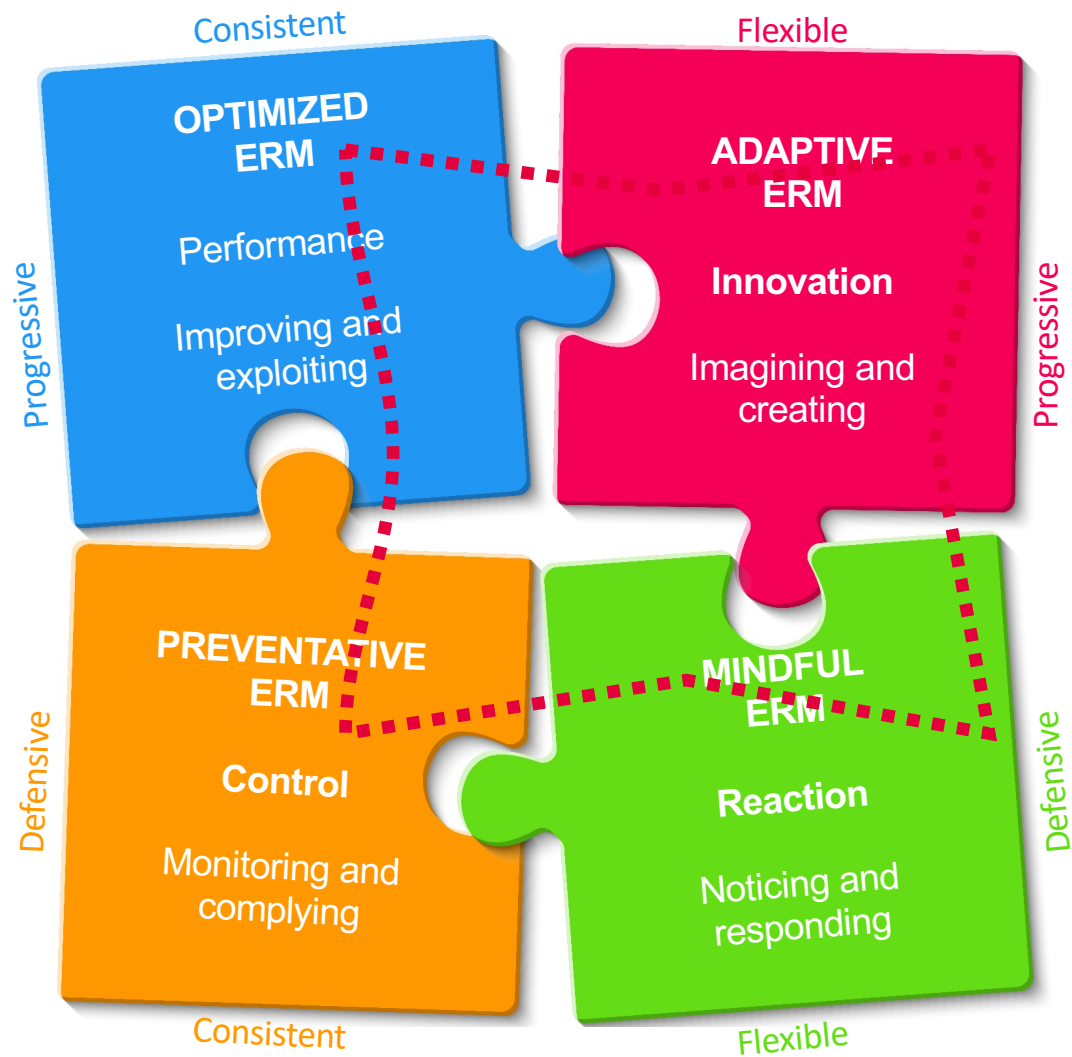
*Focus.* ERM enables innovation, creating new products, services or markets and/or resolving complex, intractable issues that require 'out of the box' thinking.

*Key design issue.* Flexible structures and people working collaboratively, fail fast.

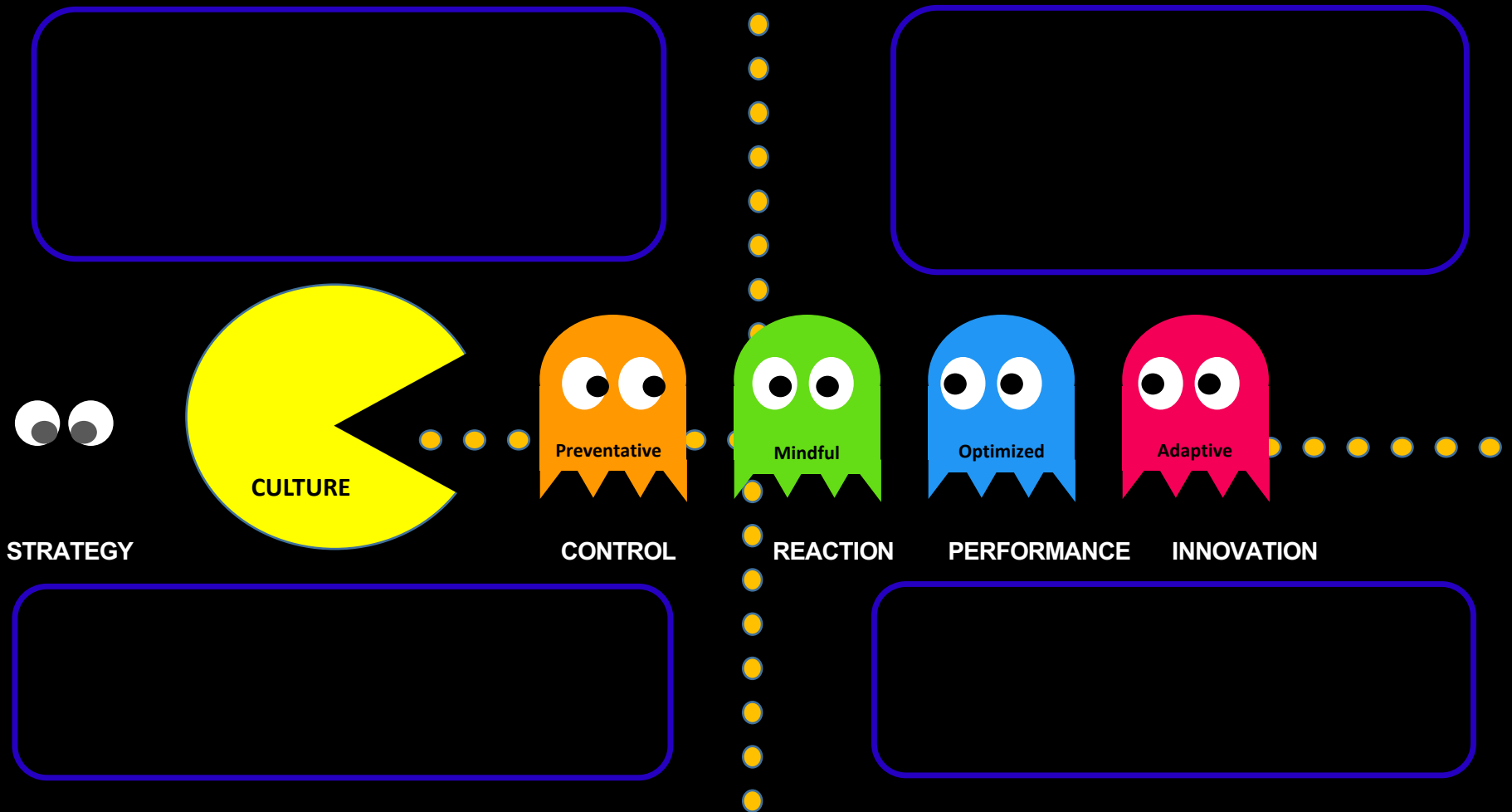
*Implementation characteristics.* Concern with experiments, new discoveries and invention from numerous places in the organization.

*Implementation strategy:* Tends to be bottom up , encouraging multiple viewpoints, creating safe spaces for people to prototype, test, and try out new concepts and ideas.

Progressive







# CULTURE



2017 SURVEY of 450 London-based directors and board members

62% said they were responsible for setting organizational culture.

Only 20% spent time managing it

63% did not consider it as part of their formal risk assessment





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