3DAssurance

The Risk and Crisis Management Pentagon

Introduction

Every organisation is vulnerable to many threats, some with a high or catastrophic potential impact on the company. New threats continue to emerge, and existing measures often lack the agility and strategic control to respond to these in a timely manner.

A critical vulnerability

If risk and crisis management (RCM) is not seen as a high priority at board level, this is a critical vulnerability. If risk processes are weak here is little assurance that the risks on the register are in fact the most significant risks, nor that the mitigations are effective. Likewise, if the arrangements to handle a crisis are not fully formed, the crisis, when it comes, will be an order of magnitude more catastrophic.

The Risk and Crisis Management Pentagon is a framework to address these issues. It is designed to be embedded in the corporate management regime, with the ability to respond strategically, tactically or operationally as needed. We have found that exploiting and co-operating with the existing corporate processes is the best way to gain attention to the critical RCM vulnerability.

Benefits

There are three quantifiable benefits.

1. The improved capability reduces the cost of risk, by reductions in probability and impact of risks, and in the duration of incidents and crises.
2. Risk management costs are more flexible and can be reduced by using a better understanding of the risks to avoid 'belt and braces' preventive measures. Additionally, the ability to get risk responses right first time reduces wasted effort and re-work as well as accelerating the resolution.
3. Greater risk assurance enables the Board to make future investment and strategy decisions with more certainty and business opportunities are less likely to be rejected through lack of confidence.

In addition, RCM equips directors to fulfil their duty of care: it protects the shareholders' assets, the organisation from risks, and people from harm.

Finally, the RCM culture, in which risks are regarded as everybody's responsibility, helps to engage the workforce in collaborative working.

Costs

The cost of development is relatively small, using mainly in-house resource plus a small amount of external resource for guidance and quality assurance. The opportunity cost of seconding in-house managers and staff onto this project is the most significant element of cost, and is managed like other strategic projects by including it in the corporate business plan, allocating resource according to the company's goals and risk appetite.

The Pentagon

The Pentagon is a strategic capability to manage risks and crises. It makes risk and crisis management a company-wide priority, addressing existing vulnerabilities and weaknesses

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and equipping the organisation with the wherewithal to respond to future risks and crises robustly and quickly, at the right level in the organisation.

The Pentagon is based on five themes, an enhancement of the UK CAA *Security Management Systems (SeMS) Framework*[1], which is as effective for all risks in all industries as it is in aviation security, supplemented by the FEMA Report *"Crisis Response and Disaster Resilience 2030"*[2].

1. *Strategic Alignment to business goals*

Like other core activities, the Risk and Crisis Management mechanism (RCM) should be aligned explicitly to the company's strategy and corporate plan. The primary goal of RCM is to improve risk and crisis management in our shipping operations across all our vessels and ports, in a way that best supports the company's business goals.

The correct risk investment is a balance of financial and opportunity costs against benefits, with margins to allow for error in the risk assessments and the control of performance.

RCM is included as a core activity in the **Corporate Planning** process, ensuring it is fit for the corporate purpose and supports the company's business goals with appropriate and proportionate risk responses.

The controls RCM provides for managing proportionality of risk response are based on the concept of *Doughnut Economics*[3], a model of a self-sustaining balanced economy, in which resources are applied where they are needed, waste is prevented and constant inflation of cost is unnecessary.

2. *Management Leadership*

The RCM is not just a mechanistic system. It provides the controls and processes, but they cannot operate without people. The **Management Leadership** theme ensures people are clear about, and committed to, risk management, essential for maximising effectiveness and minimising wasted effort and time.

A visible and regularly reinforced **Management Commitment** to the new RCM regime leaves people in no doubt about the importance of identifying and managing risks, and of reporting issues that threaten to become a crisis.

If **Management Commitment** explains the *Why*, **Accountability and Responsibilities** explains the *What*. People need to know what is expected of them, their roles and their accountability for risk, even for roles that are not part of the direct RCM operations.

People also need the knowledge and skills to know *How* to fulfil their responsibilities. **RCM Training** provides the requisite skills and explain the principles behind RCM.

All this is backed up with **Communication** to keep risk awareness high and reinforce **Management Commitment** with updates and refreshers.

Finally, the **Just Culture** policy holds staff and contractors accountable for their actions, treating genuine mistakes with understanding whilst protecting the company from deliberate malicious acts with proportionate sanctions.

3. *Corporate Assurance*

The primary goal of the RCM is to control risks, maintain effective crisis response measures, and assure the board of that.

Threat and Risk Management is the core of the RCM. Robust and effective risk monitoring ensures that proportionate controls are allocated to risks, neither exposing the company

beyond the board's risk appetite, nor unnecessarily cautious, restrictive or expensive. A cross-company Risk Review Group of senior staff and managers ensures risks are properly understood and assessed, and allocates responsibilities right across the business.

Underpinning that, **Performance Monitoring** measures risk management effectiveness to provide continuing assurance that risks are under control. This includes quality assurance of RCM components.

Incident Response ensures any risk that materialises is dealt with effectively and lessons are learnt to prevent recurrence or improve the response. It provides an escalation path for operational to tactical incident management, and when the incident escalates beyond routine management, to **Crisis Management**.

The **Confidential Reporting** scheme enables staff to report concerns and receive feedback on how those concerns have been addressed. Some concerns may alert the organisation to previously undetected vulnerabilities, threats or risks.

4. Crisis Management

In RCM, **Crisis Management** is not a defined procedure, but a theme, an infrastructure modelled broadly on FEMA's report *Crisis Response and Disaster Resilience 2030*[2].

The organisation's **Crisis Response** is the responsibility of the Crisis Group. Its role is to be the crisis control centre, reacting quickly, managing available information and outgoing messaging, triaging and making decisions at the right level in the organisation, implementing crisis measures promptly in collaboration with external partners and authorities. This relies on **Management Leadership** to empower and equip experienced people to use their intuition and experience to make and change decisions despite incomplete and conflicting information.

Effective **Crisis Response** relies on enhanced **Threat and Risk Management** tools and processes to support Crisis Management, to:

(a) Identify crises at the earliest opportunity, whether by escalation of major incidents, monitoring leading indicators for impending crises, social media watch or other means.

(b) Manage cascading consequences of crisis interactions, including changes in customer and partner capabilities and population shifts. Additionally, understanding and remediating potential points of catastrophic failure will be important.

(c) Determine and remediate supply chain vulnerabilities particularly for infrastructure services in anticipation of both global and local supply challenges.

(d) Model alternative scenarios to meet the interdependent challenges of PESTLE[4] factors

It also relies on Collaboration with partners and stakeholders requires **Inter-operability** measures to enable them all to co-operate, using their own crisis response measures rather than conforming to a uniform standard approach that may not fit well with their internal governance and culture. This requires preparatory action by the Crisis Group co-ordinated with partners' and stakeholders' own Crisis Groups (or equivalent):

(a) Establish flexible frameworks to optimize emergency management inter-operability with stakeholder businesses, communities and governments across geographic and national boundaries.

(b) Plan and coordinate partner stakeholders around shared interests and interdependencies to establish end-to-end range of emergency management capabilities.

(c) Create and operate the community and platform for omni-directional knowledge sharing, and exploit existing social media and community networks and technologies for information distribution.

(d) Exploit established and emerging technologies to advance emergency management capabilities and to improve interoperability with stakeholders.

Crisis Foresight is a culture of openly "thinking about the unthinkable". Because a crisis and its consequences are unpredictable, the more ready an organisation is to tackle the unexpected, the quicker it will overcome the crisis.

This requires **Management Leadership** to align strategies and operations across sectors, and provide **Training** tools such as models, scenarios, and simulations as learning opportunities to tease out stress points and gaps and address them

The **Crisis Management** theme draws on **Management Leadership** to develop a culture of crisis foresight by building a shared vision of the future and a culture that embraces forward thinking in **Threat and Risk Management** to anticipate emerging challenges and develops appropriate plans and contingencies.

It also relies on T**raining** to build "futures" knowledge and insights into operational and leadership training, examining and adopting global best practices.

Crisis Foresight is not limited to managers. All staff are empowered to assume crisis responsibility without needing step-by-step instructions from the centre through **Accountability and Responsibilities** supported by **Training** to equip them with the requisite skills. **Crisis Foresight** is further enhanced by assessing individuals' non-job-specific capabilities to support emergency management and encouraging relevant extra-curricular continuing personal development.

5. Enablers

Three processes support the RCM's operation.

Resource Provision ensures that the right amount, type and quality of resource is allocated to ensure the balance between resourcing and exposure that **Threat and Risk Management** intended is achieved.

Management of Change ensures that operational, organisational or functional changes do not have an unplanned impact on the company's risk and crisis management processes.

Continuous Improvement enables people to identify and try out opportunities to improve the RCM.

Conclusion

The Pentagon is an ideal strategic capability to bring an organisation's risk and crisis management into the twenty-first century. It is based on proven, simple concepts and methods that ensure the best possible response to a crisis, minimising the chaos, damage and harm that might otherwise be caused.

References

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   https://publicapps.caa.co.uk/docs/33/CAP%201223%20SeMS%20Framework_Feb18_corrections.pdf

2. FEMA (2012) *Crisis Response and Disaster Resilience 2030: Forging Strategic Action in an Age of Uncertainty* https://www.fema.gov/media-library/assets/documents/24174

3. Kate Raworth (2017) *Doughnut Economics* Penguin Random House, London

4. CIPD (2020) PESTLE analysis https://www.cipd.co.uk/knowledge/strategy/organisational-development/pestle-analysis-factsheet