



THE SIGMA GUIDELINES – CASE STUDIES

NORTHUMBRIAN WATER LIMITED

Assessing risks and opportunities



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“We have always taken a responsible approach to identifying and managing risks within the business, using a risk model specifically developed for that purpose. The SIGMA project has enabled us to extend that model and test it against independent guidelines. The result is that the model is now more comprehensive, with a better understanding of risks by managers across the business, including areas of risk overlap.”

Chris Green, Northumbrian Water Limited, Finance Director

Background to SIGMA

The SIGMA Project – Sustainability: Integrated Guidelines for Management was launched in 1999 as a partnership between the British Standards Institution, Forum for the Future and AccountAbility. It is supported by the British Government, and advised by a multi-stakeholder Project Steering Group comprised of organisations such as Worldwide Fund for Nature, Association of Certified Chartered Accountants and the Confederation of British Industry. SIGMA seeks to provide clear practical advice to organisations that enables them to make a meaningful contribution to sustainable development, by improving their social economic and environmental performance. A full copy of the SIGMA Guidelines and further information about the project can be found at www.projectsigma.com.

This case study is one of a series. It reports on the progress and organisational learning of a diverse group of organisations from industry and local government who have trialed the guidance and tools contained in the SIGMA Guidelines for sustainable management.

About NWL

Northumbrian Water Limited (NWL) is the UK water and sewerage company within the Northumbrian Water Group. The Group is a British public company currently listed on the London stock exchange. NWL serves a population of 4.3 million people with drinking water and 2.6 million people with sewerage services. It has northern and southern operating areas where the brand names Northumbrian Water and Essex & Suffolk Water are used respectively. As well as collecting, treating and supplying drinking water and collecting, treating and disposing of sewage and sewage sludge for domestic and industrial customers, NWL has leisure interests which provide holiday accommodation, conferences, fishing and recreational facilities at its reservoirs. It also provides services to homeowners relating to water connections, contaminated land, flooding and planning applications. Further information can be obtained from www.nwl.co.uk.

NWL and Sustainable Development

NWL has reported publicly on its environmental performance since 1994 and in 2002, for the first time, reported on the three pillars of sustainable development: environment, society and economy. NWL is developing a vision, policy and strategy for sustainable development. NWL operates ISO14001 across the whole of its waste water treatment processes and aims to have certification covering all operations by 2005. The Company is working with Water UK, the water industry's trade body, on developing sectoral social and economic indicators and developing a sectoral sustainability strategy.

Aim of SIGMA Pilot Project

To use the SIGMA Guidelines to ensure that social, ethical and environmental risks were integrated into NWL's high-level risk evaluation process.

What was done

NWL's risk model addresses environmental, external, operational, financial and reputation risks. It enables the company to track risks during managed and unmanaged scenarios and assists in prioritising risk management plans. The management team regularly reviews the top risks. A broad range of risks are identified within the existing model including a range of social, ethical and environmental issues which are comprehensively assessed. Examples are the ability to recruit and retain staff, increased risk of fraud, and risk of contaminated land at operational sites requiring remedial action. However it was considered beneficial to review the model against the guide to ensure that best practice in terms of risk identification, assessment and prioritisation was being followed.

Recommendations from the risk review

The review of the risk model revealed that significant changes to the existing framework were not required. However recommendations were made to improve managers' awareness of how to identify wider social, ethical and environmental risks, how to assess and prioritise them. This included identifying, and building into the model, issues that their stakeholders perceive to be risks, enabling NWL to pro-actively manage stakeholder expectations and provide an early warning to potential risks. This stakeholder-led approach is central to the SIGMA Opportunity and Risk Guide. Managers have also been asked to ensure that potential future risks are included in the risk model even if they cannot fully be assessed at the current time, so that they are at least on the radar.

Many risks primarily impact on one area of the organisation but can also impact on several others, for example an operational risk may impact upon the environment and reputation. This may result in the tendency for some risks to be understated. The interrelatedness of the risks needed to be highlighted to ensure that, when the risks are assessed they include all aspects of the risk and not just the primary point of impact. Workshops, planned to be held on an annual basis, will bring together managers that contribute to the risk model to check that all interrelated risks are apparent, are being adequately assessed and that management controls are developed.

Guidance notes were developed, specifically to support this process. They included questions that managers who assess risks should consider when identifying, assessing and prioritising risks. Managers can then record their answers to generate an audit trail to demonstrate how the range of risks were considered and evaluated. Table 1 provides an example of the guidance as used at NWL.

Recommendations were well received and were implemented when agreement with a wider range of internal stakeholders was gained.

Table 1: Excerpts from the guidance provided to NWL risk assessors

Sustainability risk and opportunity considerations (Only one example is shown under each heading. For more detail see Opportunity and Risk Guide in SIGMA Practitioner Guide)	Information needs for assurance Please record the following information: How has this issue been considered? When was it considered? Who considered it? Who was consulted? What action was taken as a result? How effective was that action?
Legal issues	
Do we have processes in place to ensure that employees are aware of and understand the implications of new and emerging legislation	
External sources of risk knowledge Note: Consider direct impacts, e.g. operational impacts and indirect impacts, e.g. supply chain and through product or service use, disposal or re-use / re-manufacturing	
What risk incidents have happened elsewhere in the water industry/ related companies and could this incident have happened at NWL?	
Is there any research / evidence of customer interest, e.g. requests for information from customers, consumer surveys, in tender requirements?	
Risk rating	
What are the reputation risks of not taking appropriate action in this area?	
Interrelated risks	
Do the risks identified have any knock on consequences that will lead to increased risks in other areas of the model.	
Strategic issues	
Has provision been made in your business plan For this risk becoming a reality	

By ensuring that environmental and social risks are integrated into NWL's risk model in a consistent and holistic manner they can provide evidence to their various stakeholders, such as city analysts, the Association of British Insurers and others that they have fully considered all their risks. Indeed by ensuring that these aspects are addressed within their risk model NWL are also ensuring that they are being managed, monitored and reported as an integral part of the business, reducing the level of the risk to the company.

Key Lessons

- It is best not to overcomplicate risk management approaches and ideally to build on existing processes. This also helps ensure that sustainable development considerations are integrated and not seen as an optional add-on.
- More integrated approaches can help to ensure that the range of sustainable development risks, that can be complex and interrelated, are understood and can be acted upon. For example, bringing risk assessors together as a check and balance to the more regular exercise of quarterly risk assessment can help to identify how sustainability risks can have a wider affect, such as how the reputation risk is related to process risks.
- Using guidance notes for risk assessors will help to ensure that all employees involved in NWL's risk assessments consider wider stakeholder implications and will help to improve understanding of sustainable development risks and opportunities.
- Stakeholder perceptions of an organisation's impacts and potential impacts, whether well founded or not, are a potential source of risk. Stakeholder engagement is a key way to understand and manage these perceptions and should inform risk assessment processes.
- Adding control and assurance information to guidance notes, which requires risk assessors to record how they have considered the range of sustainability risks and opportunities, serves as an audit trail and helps to ensure systematic management.

Duration of pilot project: *Sept 02 – May 03*