Risk Management

What is Risk?

- “Risk” has a negative connotation:
  - Risk is bad and should be avoided whenever possible
- Merriam-Webster defines risk as:
  - *“The possibility of loss or injury, or someone or something that creates or suggests a hazard*”
- For PPM risk has a less threatening definition
- PMI (2004):
  - “*Any uncertain event or condition that, if it occurs, has a positive or negative effect on a project's objectives”*
  - Risk is - in fact - associated with the concept of uncertainty

What is Risk Management?

- The only way completely to avoid risk is not to do something
  - You would never undertake client work
  - Simply not viable
- Instead we need to use risk management
- PMI (2004) risk management means:
  - Processes of identifying potential risks in a given situation
  - **Analysing** risks
  - Planning responses to the most important risks
  - Monitoring and controlling these risks over the life of the transaction (or project)
- Goal is to maximise opportunities and minimise/eliminate threats
- In PPM context (PMI 2008a) risk management is:
  - *"To increase the **probability** and **impact** of positive events, and decrease the **probability** and **impact** of negative events."*

Back to Risk

- Risks can include:
  - Strategic (e.g. Woolworths)
  - Operational (e.g. aircraft crash)
  - Financial (e.g. banking sector)
  - Market problems (e.g. COVID market issues)
  - Environmental issues (e.g. BP and Gulf of Mexico)
  - Regulatory transgressions (e.g. breach of AML regulations)

Risk is Inevitable

- Need to accept a certain degree of risk:
  - VTTI - risk of collision when driving 23x greater when texting
  - According to the ONS, in the UK (2010):
    - 99 people died falling out of bed
    - 13 people died accidentally falling off a cliff
    - 7 people died being struck by horses or cows
  - Statistically:
    - 300,000,000/1 - killed by a shark
    - 10,000,000/1 - killed by lightening
    - 4,400,000/1 - killed using a RH product if LH

Principles of Risk Management

- Create value
- Organisational ethos
- Part of your decision making processes
- Explicitly address uncertainty and assumptions
- Systematic/structured
- Use best available information
- Human factors
- Transparency
- Continual improvement
- Periodically re-assessed

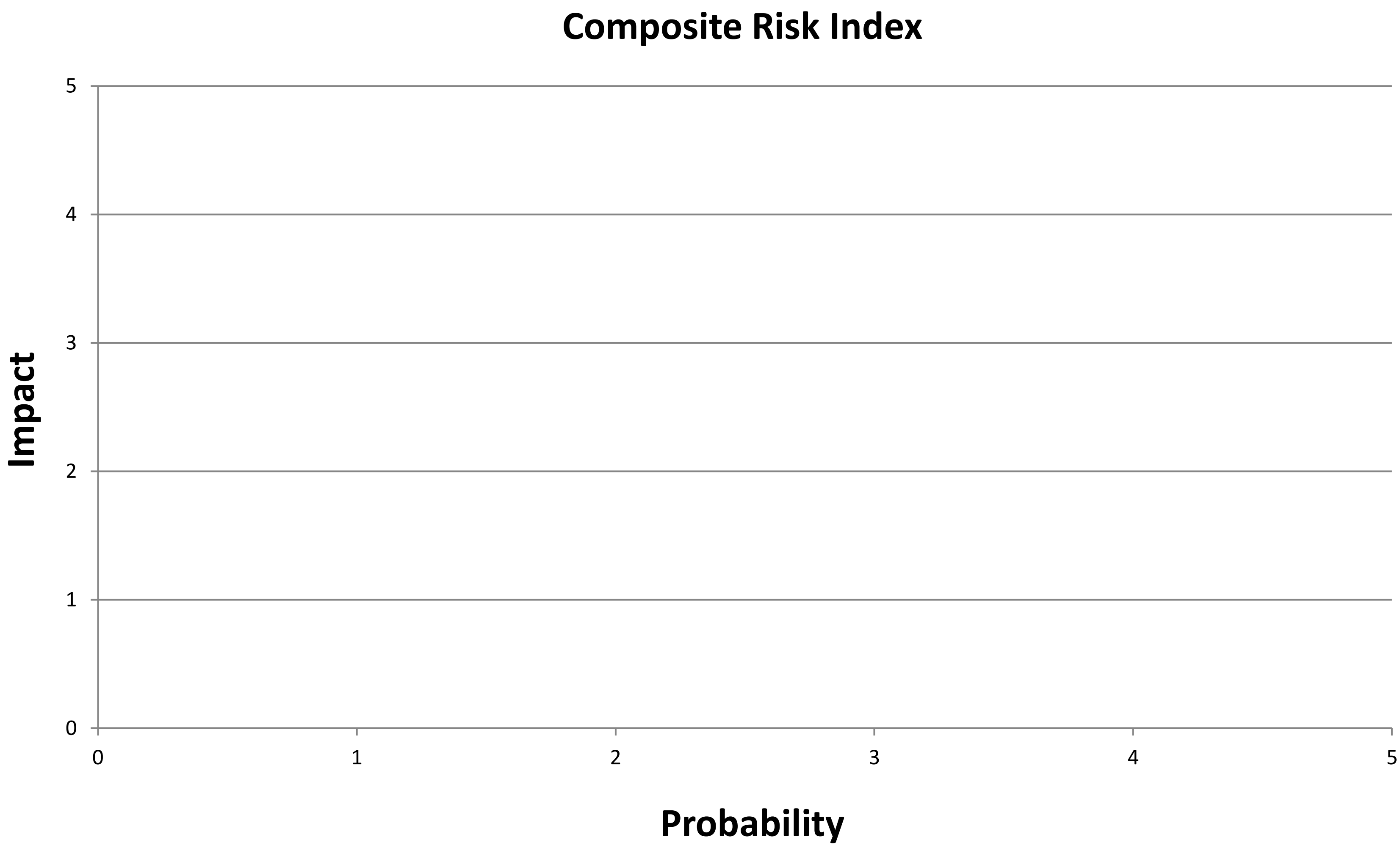
Identifying Risk

- Source Analysis:
  - Internal or external
  - Examples: stakeholders in a project (e.g. a client), employees of business etc.
- Problem Analysis:
  - Risks are tied to perceived threats
  - Example: threat of leaking confidential information

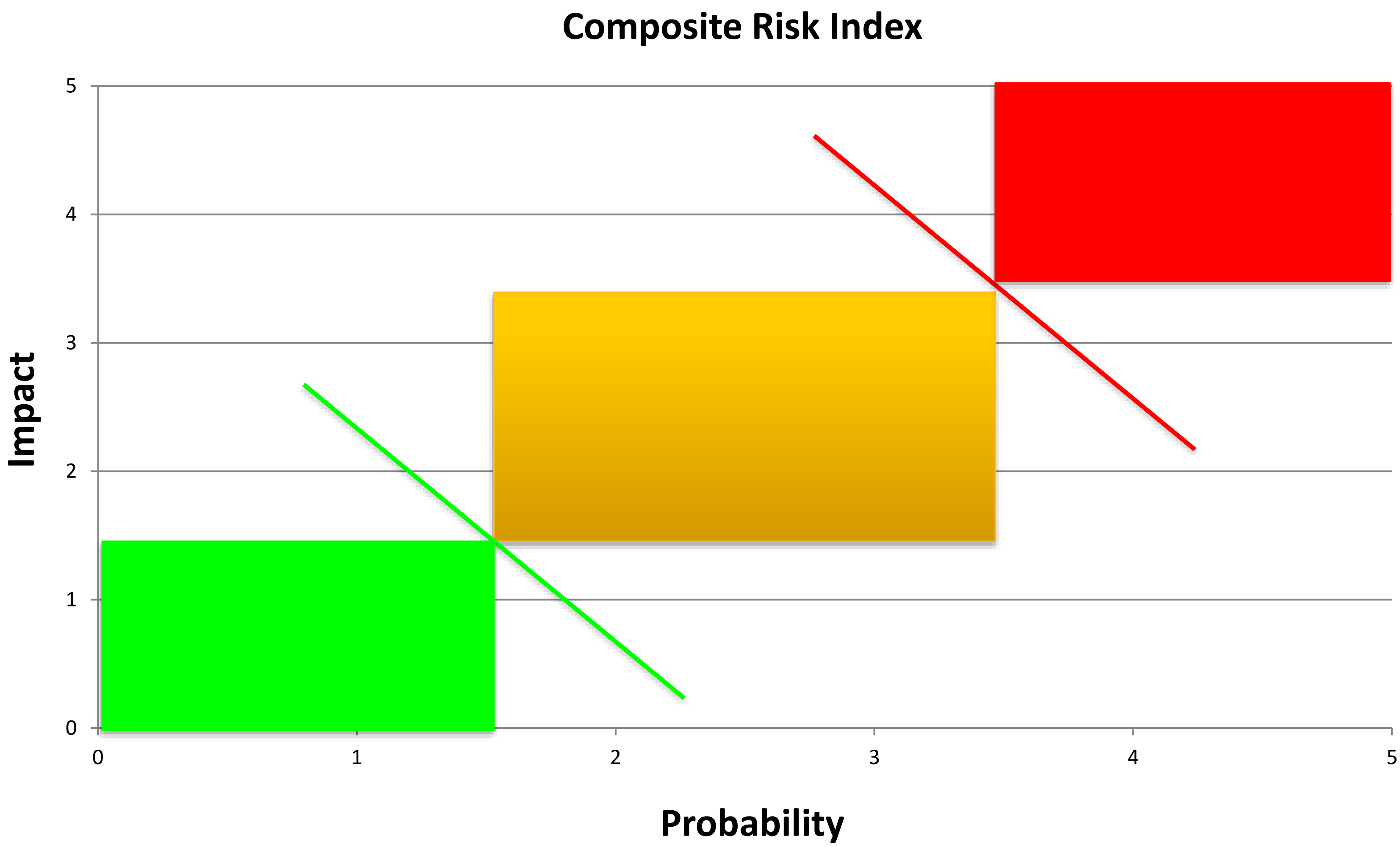
Risk Assessment

- Risks must then be assessed as to:
  - Potential severity of impact
  - Probability of occurrence
- Formula:
  - Rate (or probability) of occurrence X
  - Impact of the event =
  - Risk magnitude

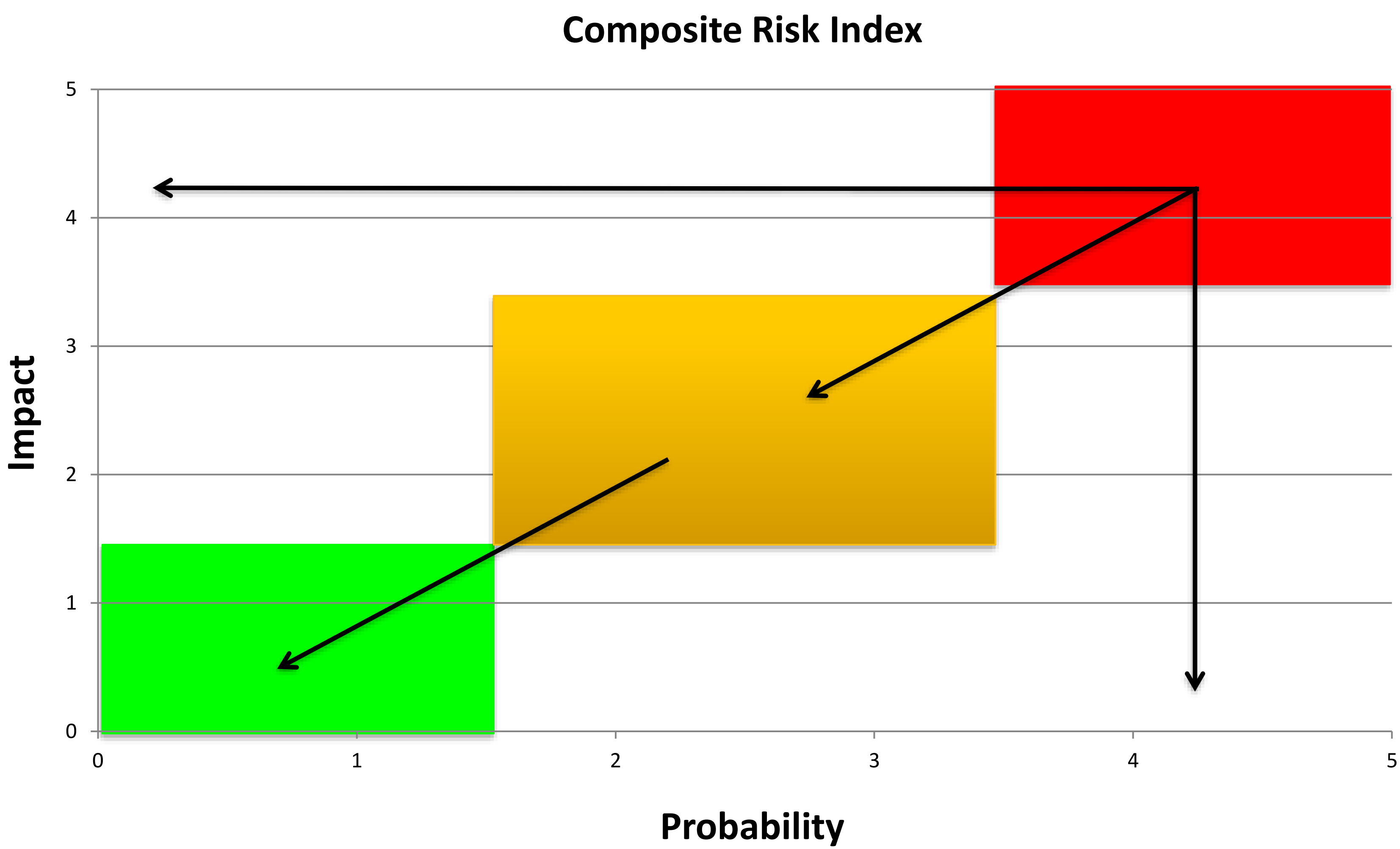
Composite Risk Index



Composite Risk Index



Composite Risk Index



Strategies 1

- Avoidance
- Reduction
- Sharing
- Retention

Strategies 2

- Avoidance
  - Not performing an activity that could carry risk
  - Means losing out on potential gain
- Reduction
  - Reducing severity or likelihood of loss
- Risk Sharing
  - Transfer/share a risk with a third party
- Risk Retention
  - Accepting loss from a risk when it occurs
  - Viable strategy for small risks

Risk Management Plan

- Creating a risk management plant involves selecting appropriate measures to manage all the risks that you identify
- Risk management plan should document:
  - Technique you have used (e.g. source analysis)
  - Tools you have used (e.g. CRI)
  - Identifiable responsibility for:
    - Risk identification
    - Risk analysis
    - Risk response planning
    - Risk monitoring and control
- Plan needs to be approved by an appropriate level of management
- (preferably your firm's exec team)
- Identify responsible persons for actions
- Review regularly in light of:
  - Experience
  - Actual loss

Risk Culture

- Finally, some thoughts on creating a positive risk culture:
  - Essentially this comes down to whether your people have the knowledge of what is “right” and “wrong” and then whether (or not) they choose to do the “right thing”
  - Your firm’s corporate culture **must** be clear on defining what “right” and “wrong” is and then promoting that internally
  - This comes from your corporate values, manifested in:
    - Your risk appetite
    - Your risk policies
      The practices and behaviours of your senior team
  - The uncertain “grey” area between “right” and ”wrong” needs to be minimised as far as possible

Risk Culture

- You then need to motivate your people to do the “right thing”
- This comes from explaining why doing the right thing is better:
  - Some ideas:
    - We will be more successful (and we can all share in that)
    - We will be positively recognised by our peers
    - We will create a great environment in which to work etc.
- Lastly you need mechanisms to recognise “wrong” behaviour:
  - Call it out and encourage people to choose “right” the next time
  - “Organisational creep”:
    - When people walk away from the “right” and into the “grey area” (or the plain “wrong”)
    - No one notices and there are no consequences
    - They continue to operate in the “wrong” and even encourage colleagues to join them
    - Over time, your risk culture deteriorates

Risk Culture - Behaviours

- Try and develop strong risk culture behaviours
- These include:
  - Strong and open communication
    - This means escalating issues as soon as they arise
  - Always considering risk in any decision that is made
    - Prior to it being made
  - Taking responsibility for risk
    - Your people need to claim ownership of risks and associated problems
  - Encourage and educated your people in risk and risk management
    - LSS
  - Demonstrate a positive attitude to risk management

Risk Culture - Actions

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- Once the right thinking and behaviours exist:
  - You can move to developing specific actions
  - For each of your people with respect to risk management.
- This includes:
  - Taking compliance seriously
  - Calling out, escalating, recording, reporting and managing all risk incidents as soon as they occur
  - Regularly reviewing key risk indicators in amber and red
  - Following up actions and ensuring they are implemented
  - Being risk aware at all times and updating risk assessments as risk profiles change
  - Raising risk as part of every decision your people make
  - Praising your people who call out risk incidents

Risk Culture – Final Points

- In order to foster the thoughts, behaviours and actions we have talked about, the following principles may be of use:
  - Risk and risk management must be understood by all of your people
    - They cannot have a strong culture around what they do not understand
    - Risk management must be presented as a business enabler, not a business hindrance
    - The risk management process must be efficient and not cumbersome
      - It should be as simple to understand as possible
    - Good behaviour and actions should be recognised and rewarded
    - Bad behaviour should have consequences
    - Most importantly, the correct culture must be set at board level – set the tone at the top

Risk Management