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Keeping it Simple

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We all manage risk, every day and all the time. We may not always do it as well as we would wish, but risk management is simply a consequence of us each trying to achieve the best outcomes we can, day by day. However, sometimes our profession seems to forget that our role is to help those we work with make better decisions. It's not to bamboozle them with complex terms or bury them in reports. Nor is it to waste their time in meetings or workshops that they perceive have little benefit or relevance to what they have to do and the decisions they face.

Although most of you would agree with what I have said above some, on reflection, might also accept that we make risk management too complicated at times – almost, you might say, as a form of protectionism.

The definition of risk in ISO 31000, the effect of uncertainty on objectives, is simple and generally easy for decision makers to comprehend. Where things start to get difficult is where we append some other term to 'risk', to describe concepts we might find fascinating but which often only confuses and distracts our clients. These new concepts of risk, such as 'risk velocity', 'risk culture', 'risk clockspeed', 'risk appetite' and 'risk governance' seem to come over the seas on a weekly basis and you do have to question the motives of those promoting them. I discuss the phenomenon of risk appetite further in this edition of RiskPost but I would suggest that when faced with a proposed new way of thinking about risk, you test it to see if it adds any value by asking:

- Can it be explained simply without using the word 'risk' in the explanation, the test of a sound definition?
- Do it and its explanation accord with the current definition of risk – or does it relate to 'risk' being a consequence, likelihood, a risk source or a level of risk?
- When you substitute the definition of risk into the new phrase, does it still make sense?
- Will the use of the concept honestly improve the coherence, reliability or effectiveness of day-to-day decisions in your organisation?
- If you think it deals with something important, is it already covered elsewhere by standard terminology?

Our profession does seem bedevilled by the need to digress and diversify rather than agree on a standard approach and then stick to it. I'm not sure we really need all these new, artificial constructs to help managers make better decisions.

Even our hallowed risk management process can be made more relevant if we describe it in terms of the questions that should be asked when decisions are made and acted upon:

- What do I want to achieve and how might I go about it?
- Who needs to get involved and what will they do?
- What things might stop me achieving them?
- What things might enhance me achieving them?
- What should be done to ensure success?
- What do I need to check to make sure it continues to move towards a successful outcome?
- What are the lessons we have learnt to date and what shall we do about them?

The first principle of effective risk management in ISO 31000 is that it should create and preserve value. To show how this decision support process has created value, we have to show how decision-making has been improved and better outcomes have been achieved.

While, undoubtedly, great organisations and great leaders make consistently good decisions that must involve some implicit assessment of risk, it is rare that their success is attributed to good risk management. This may be because risk management is often perceived as a governance demand or chore, or a side activity concerned with buying insurance: it is not viewed as central to the organisation and its means of creating a return on the capital employed (in whatever way that occurs and whatever form the capital takes).

I might even suggest that it is impossible to persuade others of the full and true value of adopting a more effective means of managing risk while we continue to describe it as a separate system of management called 'Risk Management'. Separating it from our core work makes it seem as though risk isn't central to making important decisions for the organisation.

So, maybe if we want others to see the value that effective risk management creates, we need to use language and approaches that they can easily understand and relate to. These have to be consistent with the ways that managers think and how they make decisions, which means we have to keep it simple and relevant.

Maybe, for risk management to create value, to be successful and effective, we even have to stop calling what we do risk management.