Stop Managing Risks
Start Managing Expectations

From compliance-driven risk management practices
to reconciling competing interests of core stakeholders

MP **by Marinus de Pooter**

Why This Matters

The Big Question

If risk management is the answer, what was the question again?

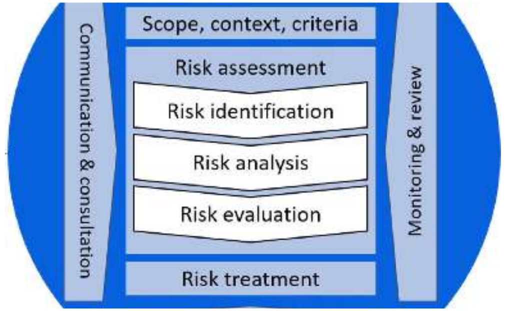
Challenging Conventions

Captivating insights regarding the shift from managing risks to managing expectations.

New Perspectives

How our understanding of dealing with uncertainty has changed in recent years.

Risk Management Ecosystem



Risk Frameworks

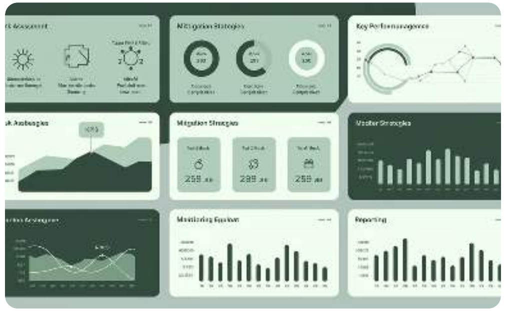
ISO 31000, COSO ERM: Risk owners

Risk Consultants

Advisors, trainers

Risk Managers

Risk officers, analysts



Risk Tools

Workshops, registers, dashboards

A multi-million dollar industry with big stakes.
Risk consultants keep selling risk management stuff and many organizations keep buying them.

Journey Ahead

Managing Individual **Risks**

Warding off possible calamities

Making **Decisions**
Under Uncertainty

Estimating the likelihood of success

Weighing Interests
of **Stakeholders**

Reconciling dilemmas

Conventional Risk Management

Identifying Risks

Individual risks are categorized using a taxonomy.

Analyzing Risks

The risk register is prioritized using risk scores.

Mitigating Risks

Controls are aimed at reducing the risks to acceptable levels.

Monitoring Risks

State of Risk reports about the exposure to possible calamities.

Staff officers collect information from line managers that they then read back in reports.
Is this truly adding value?

ORCA Approach

Objectives
Clarifying goals

Risks
Identifying things that can go wrong

Controls
Implementing adequate control measures

Assurance
Establishing control effectiveness

Three Lines Model

First Line

Colleagues owning and managing risks

Second Line

Specialists in risk and compliance

Third Line

Internal audit as judiciary

Does Risk Management add value?

Other than reassuring supervisors, is there anything in risk management that is not already part of day-to-day management?

The alternative Approach:

- Forget about 'risk management' altogether apart from compliance requirements
- Take the perspective of decision-makers
- Help them manage the expectations of their core stakeholders

Origins of Risk Management

Insurance Industry

Helping customers protect themselves from potential misery.

SEC Requirements

1960s: First requirements for risk disclosure in IPO documents.

Risk Management Frameworks

Early 2000s: Coherent sets of risk identification, analysis, mitigation, and monitoring.

Origins of Risk Management

1970s Factory Safety

Risk inventory lists became commonplace for worker safety.

Compliance Function

Lists of potentially dangerous situations were useful to inspectors.

Governance Standard

Risk management seen as a hallmark of good governance.

Serious Issues with 'Risk'

Negative Connotation

Traditionally, it refers to something negative: possible loss.

Multiple Meanings

'Risk' can mean: potential misery, meaningful uncertainty, cause, event, effect. etc.

Neutral Risk Concept

In ISO 31000 and COSO ERM (2017).

Risk Management Jargon

Communication Barrier

Risk specialists use terminology that leaves others confused in meetings.

Complex Terminology

Business documents filled with numerous terms starting with 'risk'.

Alienating Effect

Colleagues feel it must be something distinct from their own duties and activities.

Risk Appetite Statement

Vague Concept

What exactly does 'low risk appetite' mean? How do you measure it?

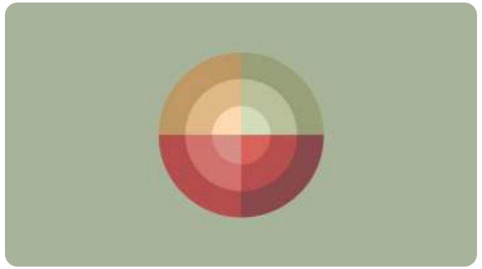
Missing Balance

Focuses on potential trouble without considering potential benefits.

Static vs. Dynamic

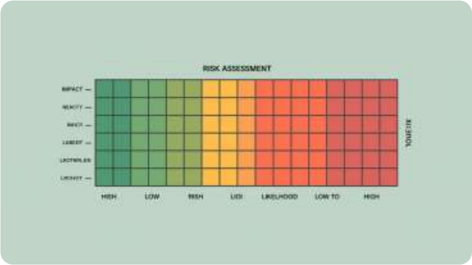
Risk appetite statements are static, while reality is dynamic.

Why Heatmaps Fail



Misleading Simplicity

Green is right and red is wrong. Intuitive yet misleading.



False Precision

Points in the grid suggest an exactness that does not exist.

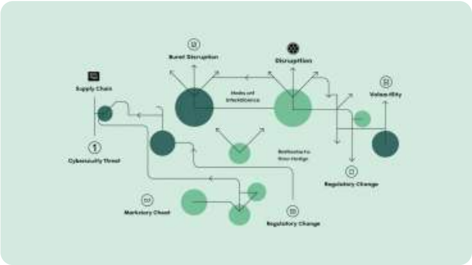
Wrong focus

Focuses on individual risks not on achieving objectives.

Subjective Scoring

Ratings are based on individual perceptions rather than objective measurements.

Why Heatmaps Fail



Ignores Interdependencies

Treats risks as isolated events when they're often connected and can trigger cascading effects.

Focuses on Negativity

Emphasizes threats while overlooking opportunities, creating an unbalanced view of potential outcomes.

Misleading Calculations

Creates mathematical inconsistencies multiplying likelihood by impact using ordinal scales.

Phantom Risks

The high likelihood - high impact area is non-existent.

Quantification Challenges

Model Limitations

Risk quantification depends heavily on assumed parameters and available data.

Map vs. Territory

Models are not reality itself. A map is not the area it represents.

Time Constraints

Often you don't have time nore sufficient information to build adequate models.

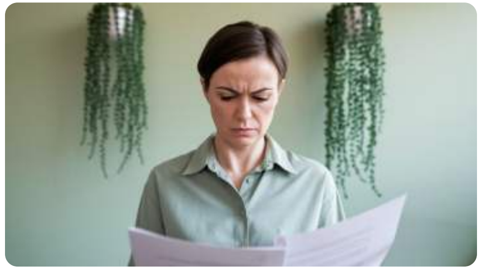
Compliance Trap

Compliance Mindset

Executives see risk management primarily as a compliance issue.

Commercial Interests

The ESG circuit is extremely lucrative.
A real compliance gold mine.



Regulatory Focus

Regulators are hardly interested in the upside of risk.

Missing Audience

Business owners and line managers rarely attend risk management trainings.

Decision-Maker's Perspective

Focus on Success

What decision-makers need to know: what is the likelihood of my 'success'?

Stakeholder Satisfaction

'Success' means: delivered performance
that leads to the satisfaction of
core stakeholders.

Future-Proofing

If core stakeholders aren't satisfied
with the organization's performance,
it is not future-proof.

Anticipation Questions

Success

How likely is it that we will be able to achieve our goals?

Dependencies

On whom or what are we especially dependent?

Assumptions

How realistic are the assumptions in our plans?

Consequences

What are the potential effects of our choices?

Key Stakeholders

The organization's success depends on keeping key stakeholders satisfied, e.g.:

Employees

First priority according to Richard Branson

Customers

Shareholders

If the stakeholders do not remain satisfied with the effects of the organization's performance on what they value, it is not future-proof.

Future-Proofing

Resilience

Being able to withstand a bump. Think digital robustness.

Flexibility

Adapting to changing circumstances and requirements.

Improvisation

The ability to respond effectively to unexpected situations.

Balanced Decisions

Potential Benefits:

- Wealth accumulation
- Freedom to customize
- Lower monthly costs

Potential Downsides:

- Speculating with borrowed money
- Sagging foundations
- Horrible neighbors

There is nothing in life that only comes with advantages. As a decision maker, you must analyse and weigh the estimated pros and cons.

Day-to-day Management

Design

Creating effective processes

Implement

Putting processes into action

Evaluate

Assessing process effectiveness

Improve

Enhancing process performance

This is no different from the PDCA-cycle, from day-to-day management.
So, why do something separate called 'risk management'?

The New Focus

Not: Individual Risks

Updating risk inventories has limited value.

Not: Singular Goals

It's never about one objective.

Stakeholder Interests

Reconciling dilemmas from conflicting interests.

Is Risk Management redundant?

Compliance Tool

Risk management approaches serve primarily to pacify supervisory authorities.

Accountability Instrument

In practice, risk management serves as an accountability instrument for fighting miseries.

Separate Discipline

Apart from compliance requirements, it is redundant as a separate discipline.

Is Risk Management redundant?

Pleonasm

'Risk management' is like saying 'burning fire' or 'open vacancy'. There is no management without uncertainty.

Daily Management

Every professional executive considers potential positive and negative effects on objectives daily.

Limited Added Value

No one consults risk appetite statements when impactful decisions need to be made.

Embracing Uncertainty

Critical Friends

People like decision theory experts and dilemma coaches can be beneficial for executives.

Humility

Our human ability to predict the future is painfully limited.

Improvisation Skills

Develop and maintain team improvisation skills for unexpected situations.

Value of Critical Friends

Honest Feedback

Providing candid assessment of decision quality.

Challenging Assumptions

Questioning the basis for important decisions.

Supporting executives

Keeping decision-makers dependence aware and consequence conscious.

Final take-away

Remember that (un)favorable results are always an inextricable combination of (un)luck and (un)wisdom.