

# **Does your organisation have the 'right' appetite for risk?**

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# Risk appetite in Housing Associations: why me?

- Intrigued by the question '**HOW MUCH RISK IS TOO MUCH RISK?**' for a number of years
  - Industry, Public Service, Life!
- Practical, not esoteric question that senior leaders need to deal with in order to make good decisions under uncertainty
  - How much control? How much innovation?
  - How to align the organisation, despite different perspectives
- Co-author of 'A SHORT GUIDE TO RISK APPETITE', 2012 with David Hillson
  - And two books on Understanding and Managing Risk Attitude (a different thing) in 2005 and 2008
- Provided advice and the design of risk management frameworks for a number of organisations in all sectors – major plcs to small charities.

# First think about risk...

- UNCERTAINTY THAT MATTERS
- About OBJECTIVES – what matters?
  - Service provision
  - Finances
  - Safe working
  - Legal practices
- About UNCERTAINTY – neutral concept – threat and opportunity
  - What might happen that would make things better or worse than you have assumed in your business plans?

# Then think about appetite...

- HOW MUCH RISK IS TOO MUCH RISK?
- To what degree can you vary from plan before it's a show-stopper, or a game-changer?
  - Service provision
  - Finances
  - Safe working
  - Legal practices
- 'How much is too much' will vary
  - By objective
  - By person on your Board – risk, like love, 'eye of the beholder'
- How do your managers know what to do? What risks to take? What controls to invest in?

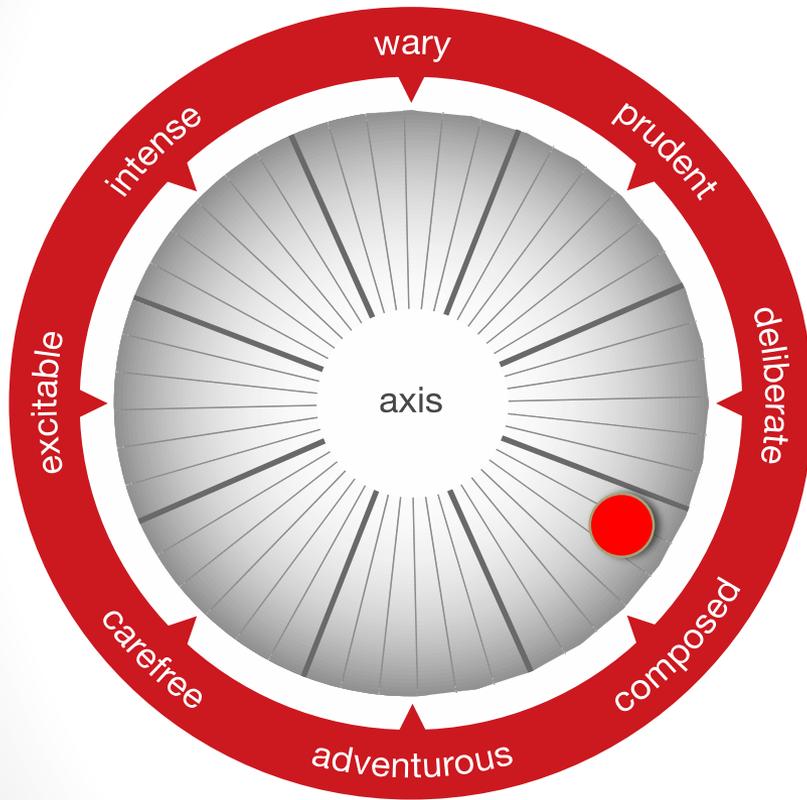
# Then get practical...

- Does it help to have a risk appetite 'statement'?
  - What is a 'high', 'medium', or 'low' appetite for risk?
  - How might I, as a manager working for you, interpret that?
- Define a way of telling your people how much risk is too much risk for each of your objectives – the only way to do that is in the same units as you manage performance
  - Service provision
  - Finances
  - Safe working
  - Legal practices
- What is the range of tolerable performance? What are the measurable thresholds you can set to guide decision-making and behaviour?

# Practical frameworks – simple concept, but...

	<b>Insignificant</b>	<b>Minor</b>	<b>Moderate</b>	<b>Major</b>	<b>Showstopper or Game changer</b>
<b>One-off financial impact</b>	<3% budget	3-7% budget	7-14% budget	14-28% budget	>28% budget
<b>Service provision impact</b>	<5% of SLAs missed for less than 3 months	<5% of SLAs missed for up to 3 months	5-10% of SLAs missed for up to 3 months	5-10% of SLAs missed for between 3-6 months	>10% of SLAs missed for more than 6 months
<b>Health and Safety impact</b>					
<b>ETC</b>					

# ... different perceptions of risk create a complication

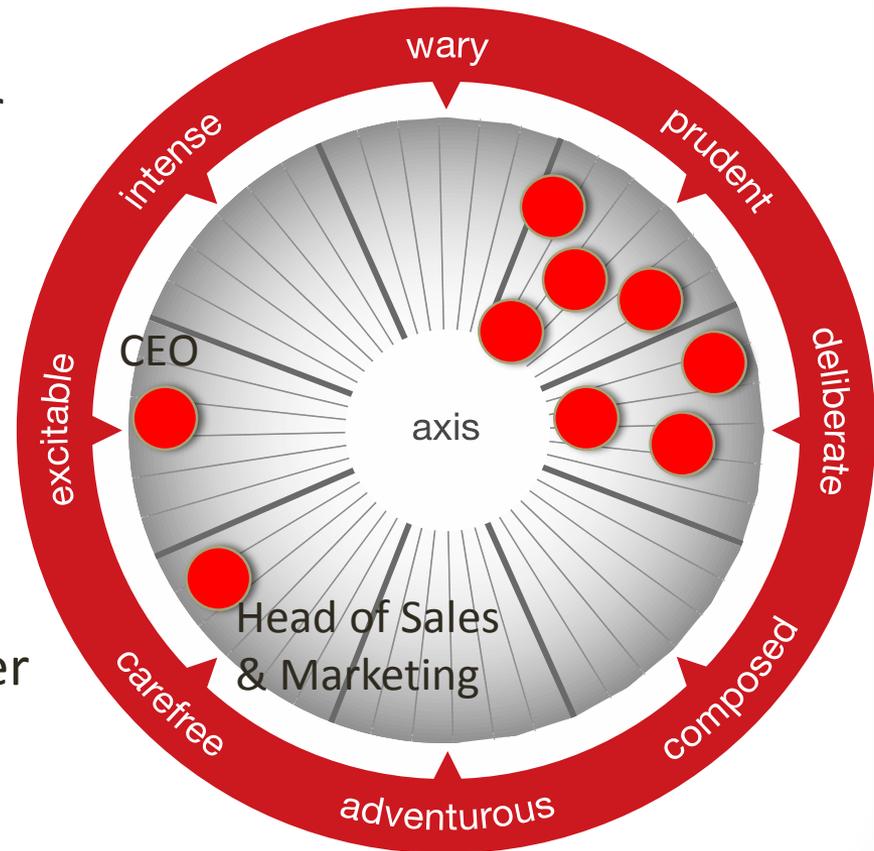


Risk-Type Compass

- We all have our individual propensity to take risk – from ultra cautious, to reckless (depending on your point of view)
- This affects perceptions of what is risky and why, and views on ‘how much is too much’
- Practical solutions are only possible when the senior leaders have agreed on an official set of thresholds.

# Example - Board and Exec of South African mining company

- Board member asked –“ is our exposure to risk OK?”
- Sharing risk-types was a precursor to setting risk appetite thresholds for strategic objectives
- The Board and Exec were pre-disposed to caution re: health & safety, environmental protection, diversity and inclusion etc.
- They were overly cautious with respect to diversification into other commodities and outside their home market
- Addressing their differences as people helped a conversation and some modified strategic choices plus stronger risk reporting.



# Is there a 'right' risk appetite for your organisation?

- **Trying to avoid**

- Harming people
- Polluting the natural environment
- Fraud
- Bribery
- Corruption
- Prejudice
- Contravening regulation
- Etc....

- **Trying to achieve**

- Strategy
- Profitable growth
- Value to society
- Customer satisfaction
- Employee satisfaction
- Influential voice on public policy
- Transformational change
- Etc...

# In summary

- Judgements on ‘how much risk is too much’ come from personal preferences and propensities to take risk.
- There are some objectives where we want to be very risk averse – some where we want to seek and exploit risk to create value.
- To agree risk thresholds – the practical expression of risk appetite for each organisational objective – it is likely that you’ll need a debate in your management team.
- Understanding propensity to take risk enables a conversation that can lead to more considered risk-based decision making and more robust governance.

# For more information

- [www.ruthmurraywebster.com](http://www.ruthmurraywebster.com)
- [www.rara-risk.com](http://www.rara-risk.com)
- A Short Guide to Risk Appetite; Hillson, D. A and Murray-Webster, R. 2012.
- A Short Guide to Facilitating Risk Management: engaging people to identify, own and manage risk; Pullan, P. and Murray-Webster, R. 2011.
- Managing Group Risk Attitude; Murray-Webster, R. and Hillson, D. A. 2008.
- Understanding and Managing Risk Attitude (2nd edition); Hillson, D. A. and Murray-Webster, R. 2007.