

Institute of Risk Management

Measuring the benefits of risk management presentation

7th April 2011

Workshop write-up

for and on behalf of the IRM

Initial thoughts from a non-attendee

How much does it cost to carry out comprehensive and visible risk management?

From my perspective on project risk management, I think it can cost relatively little more than basic project development cost do the risk management and have appropriate contingency if the project scope and design has been intelligently set up - particularly with the expected ROI. (Obviously links back to having an idea on how much you want to spend on managing risk and risk appetite). It looks more if expressed as development cost fraction, much less it expressed in ROI for the project. That's the financial cost. I think there is a personal cost as well. Most projects are full before risk management really gets going. As much as there is financial commitment, there is a lot of personal action involved - doing things. Usually late nights and weekends.

Making it visible is good return on effort. Mostly about communication. There is some effort in assembling messages, but well worth it. And if contingencies are brought into play, it can't but help be visible.

Evidence it does us good?

Easy to note when contingency plans/strategies are used, we have examples where additional investment in a project contingency proved to be critical. Less easy to note when preventative steps were useful - because of the uncertain nature of risk. Like the theory says, I have a feeling that decision processes would be much slower without visible risk plans (not necessarily good ones, just visible ones!) Slower decision making can cost a lot - up to a year's revenue in an FMCG field, where a customer like Tesco may only change a shelf once a year.

Collating evidence

It looks tough. We could collect many examples, qualitative and quantitative. But to be fair, wouldn't it be also good to collect examples where it doesn't do us any good!

I think we would need to decide what areas of benefit we want to demonstrate, then we can populate. In think it would be worth starting something, the sharing would be useful.

Risk management scenarios, as discussed by attendees

Table 1

Your board has only ever wanted minimum compliance to fraud legislation. Improved compliance would be expensive and only minor cases of invalid payments have been found in the past. The board has no plans to change this situation. What is your response?

- a) Do you consider it worthwhile performing more comprehensive and visible risk management?
Yes
- b) What evidence is there that further risk management would do any good?
- **Provide greater assurance over measures in place.**
- **This would also have the benefit of raising the profile of risk management across the organisation.**
- **Examples of fraud elsewhere would be help to support the argument for risk management here.**
- c) How might you collate this evidence?
- **Workshops with relevant staff**
- **Review of current measures in place, vs those believed to be required**
- **Investigations of any possible reported frauds**
- d) Finally, in respect of this scenario, what is the view of the Table on a scale of 1 to 5 as follows:
- 1. We are concerned about the current situation.**
 - 2. We have some doubts about the current situation.*
 - 3. We have no opinion either way on the current situation.*
 - 4. We are reasonably satisfied with the current situation.*
 - 5. We are happy with the current situation.*

Table 2

A recent gas leak caused one of your sites to be evacuated but thankfully no-one was hurt. The fault lay with a supplier who installed the central heating. Despite some local press attention, management's conclusion is that this was an isolated incident and that no further action is necessary. What is your response?

- a) Do you consider it worthwhile performing more comprehensive and visible risk management?
Yes (none is considered to be in place here)
- b) What evidence is there that further risk management would do any good?
- There does not appear to be any risk management in place here, which is likely to have been a key contributory factor in this incident.
- There appears to be an 'arms length' view of the third party, whereas effective risk management would recognise that the risk in this situation cannot be 'outsourced'.
- c) How might you collate this evidence?
- Root cause analysis
- Survey of staff and community, acting on outcomes as applicable. A good Risk Manager would recognise that views would be coloured by recent events and be able to moderate this accordingly.
- Specialist Safety, Health & Environment input may be required
- d) Finally, in respect of this scenario, what is the view of the Table on a scale of 1 to 5 as follows:
- 1. We are concerned about the current situation.**
 - 2. We have some doubts about the current situation.*
 - 3. We have no opinion either way on the current situation.*
 - 4. We are reasonably satisfied with the current situation.*
 - 5. We are happy with the current situation.*

Table 3

Your corporate disaster recovery plan is basic, has never been used or tested. Management however is adamant that the occurrence of any significant incident is too remote to warrant further investment in this area. What is your response?

- a) Do you consider it worthwhile performing more comprehensive and visible risk management?
Yes
- b) What evidence is there that further risk management would do any good?
- **There have been a number of recent high profile examples externally which could be used to demonstrate to stakeholders the risks associated with weak disaster recovery measures.**
- **There may be 'near misses' reported internally, which would strengthen the case for testing of the DR plan.**
- c) How might you collate this evidence?
- **A business impact analysis should be performed, as part of implementation of end-to-end business continuity management measures.**
- d) Finally, in respect of this scenario, what is the view of the Table on a scale of 1 to 5 as follows:
- 1. We are concerned about the current situation.**
 - 2. We have some doubts about the current situation.*
 - 3. We have no opinion either way on the current situation.*
 - 4. We are reasonably satisfied with the current situation.*
 - 5. We are happy with the current situation.*

Table 4

Whilst petty theft at your office occurs from time to time, little of value goes missing. Management believe the matter can be left as it is. What is your response?

- a) Do you consider it worthwhile performing more comprehensive and visible risk management?
Yes
- b) What evidence is there that further risk management would do any good?
- **This could be the tip of the iceberg, but without a risk assessment this may not be visible**
- **A culture where such activity is permissible may have more significant impact upon overall business operations.**
- c) How might you collate this evidence?
- **Root cause analysis / trend analysis**
- **Assessment of controls in place to prevent petty theft or similar activity**
- **This would help inform decision-making over this area, as well as using risk management to help change/influence management views.**
- **There was a recognition in the room that in this situation the risk management function may need to 'get on with it', given the apparent low level of buy in from stakeholders.**
- d) Finally, in respect of this scenario, what is the view of the Table on a scale of 1 to 5 as follows:
1. *We are concerned about the current situation.*
 2. ***We have some doubts about the current situation. (would be a 1, however recognise that there are likely to be some controls in place here)***
 3. *We have no opinion either way on the current situation.*
 4. *We are reasonably satisfied with the current situation.*
 5. *We are happy with the current situation.*

Table 5

A Sunday broadsheet is planning to expose appalling practices at one of your competitors. Your company is uninvolved but the reputation of the whole sector might be impacted. Having taken legal and PR advice, senior management plan a press conference to disassociate your company from the issue. What is your response?

- a) Do you consider it worthwhile performing more comprehensive and visible risk management?
Yes
- b) What evidence is there that further risk management would do any good?
- **There is a need to reassure 'ourselves' before reassuring management, otherwise this could**
- **There was recognition in the room that the scale of response would be influenced by the number of competitors in the sector - if a low number, more would be needed, however if a high number then there would likely be less media interest in our organisation (influencing the level of risk management activity accordingly).**
- **If we are reassured that we don't have similar practices, this could be an opportunity to present a positive view of our own company to the media. However, the relevant risk management activity would need to be taken before any such announcement to the media.**
- c) How might you collate this evidence?
- **Investigate past and present practices within our own organisation.**
- **Determine whether rigorous risk management (and other relevant) procedures are in place, which would help prevent such practices.**
- d) Finally, in respect of this scenario, what is the view of the Table on a scale of 1 to 5 as follows:
- 1. We are concerned about the current situation. (first and foremost because of the press conference urgency)**
 2. *We have some doubts about the current situation.*
 3. *We have no opinion either way on the current situation.*
 4. *We are reasonably satisfied with the current situation.*
 5. *We are happy with the current situation.*

Table 6

In order to meet cost targets management plan a series of redundancies and changes in staff work patterns. This raises the real possibility of strike action and short term impacts on quality of service. What is your response?

- a) Do you consider it worthwhile performing more comprehensive and visible risk management?
Yes (although recognising that risk management measures may already be in place), with consideration given to stakeholder visibility of this.
- b) What evidence is there that further risk management would do any good?
- **This would help determine potential impact on the organisation, both operationally and financially.**
- **Examples of similar issues elsewhere and how these evolved would help influence stakeholders here.**
- c) How might you collate this evidence?
- **Financial metrics, considering the impact of staff being on strike, damaged morale etc.**
- d) Finally, in respect of this scenario, what is the view of the Table on a scale of 1 to 5 as follows:
 1. ***We are concerned about the current situation. (based on the assumption that there has been no risk management involvement to date)***
 2. *We have some doubts about the current situation.*
 3. *We have no opinion either way on the current situation.*
 4. *We are reasonably satisfied with the current situation.*
 5. *We are happy with the current situation.*

Themes discussed during risk quantification exercise

- It is difficult to compare the scenarios, as there isn't enough detail to inform a view on likelihood and impact. More information would be required to allow this assessment.
- Recognition in the room that whilst some risks did not appear significant, effective risk management includes consideration of a portfolio of risks and that the aggregate of these could be much more significant. Attention should not therefore be diverted away from the smaller risks.