

## Quantitative Measures of Risk Management Effectiveness

Prepared for IRM NW branch following discussion on 7<sup>th</sup> April 2011

These are the set of metrics that are seen to be valuable, and do-able given the maturity of risk management within one of my clients.

They do not use probabilistic risk analysis.

They determine risk exposure by aggregating the expected value of discrete risks, after taking into account mutually exclusive events. This isn't perfect, but it's where they are.

Question the metric is helping to answer	Comments
<p><b>How risky was this work seen to be at the last decision point?</b> Enables a sanity check on risk appetite/tolerance and the level of effort being put on risk management.</p> <p>Enables challenge in terms of expected results of the work.</p>	<p>Value of the risk exposure for the work at the last decision point.</p> <p>Closed risks should be excluded.</p> <p>There should be NO TARGET – the key thing is to monitor trends and review at governance meetings.</p>
<p><b>How risky is the work now and how is this changing?</b></p> <p>A way of validating the quality of risk identification and costing in the planning cycle, and overall risk management over the life of the work (at a crude level).</p>	<p>Variance between the value of the (last) point of sale risk exposure baseline and the current risk exposure.</p> <p>The value of the current risk exposure should run-down over the life of the work if risk identification and costing was done well in the planning phase.</p>
<p><b>Are identified assumptions and risk being managed?</b></p> <p>Crude measures, but possible to track and will hopefully drive different behaviours in the short term.</p>	<p>Number and % of risks open with no costing in place (for a project)</p> <p><b><i>This should be zero and needs a flag because this would be a non-conformance</i></b></p> <p>Number and % of risks open with response plans in place that have not been approved within 1 month.</p> <p><b><i>Should be zero if governance is working</i></b></p> <p>Number and % of risks open with no response plan in place</p> <p><b><i>This should not be zero as some risks will be validly accepted, but would allow a sanity check of what percentage of risks is being accepted. A target would not be appropriate, but the data is valid.</i></b></p>

<p><b>How successful is risk response planning and implementation?</b></p> <p>Would expect to see <b>X increasing</b> as a percentage of the total (number and value).</p> <p>Would expect to see <b>Y decreasing</b> as a percentage of the total (number and value).</p> <p>Would expect to see Z decreasing as a percentage of total (number and value) although Z is a tricky one. On the one hand it's an indicator of whether relevant risks are being identified in the first place, but in part this is also a measure of how lucky/unlucky you were.</p>	<p>For each closed risk, then overall for the work.</p> <p>Number of risks closed in the period as a percentage of the total risks closed, i.e.  X% were managed successfully  Y% triggered (became issues)  Z% passed without any cost (lucky)</p>
<p><b>Are all knowable assumptions and risks being identified?</b></p> <p>B) is not great, but B) is better than A) because at least financial and mental provision is made for B)</p>	<p>Ideally would track reasons for re-work/over-spend/unexpected spend to find out whether it is related to:</p> <ul style="list-style-type: none"> <li>A) Actual cost of managing unidentified risks</li> <li>B) Actual cost of managing identified risks that impact</li> </ul>
<p><b>Is risk prioritisation and response planning effective?</b></p> <p>Allows a sanity check on which assumptions and risks have response plans.</p> <p>Allows a sanity check on whether the response plans are worth the investment.</p>	<p>For each discrete risk, and then overall for the work.</p> <p>Is the money invested in risk responses worth it in principle?</p> <p>So, is the residual EMV less than the inherent exposure + the cost of responses?</p>

**Ruth Murray-Webster**

[ruth@lucidusconsulting.com](mailto:ruth@lucidusconsulting.com)

Tel: +44 (0) 7974 943443