

# **Top 10 Common ERM Errors and How to Avoid them**

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# Key definitions

## What is Risk?

*“The threat or possibility that an action or event will adversely or beneficially affect an organization’s **ability to achieve its objectives**.”*

Higher Education Funding Council for England (hefce)

## What is Risk Management?

*“The **culture, processes and structures** that are directed towards realising potential opportunities whilst managing adverse effects.”*

AS/NZS 4360: 2004

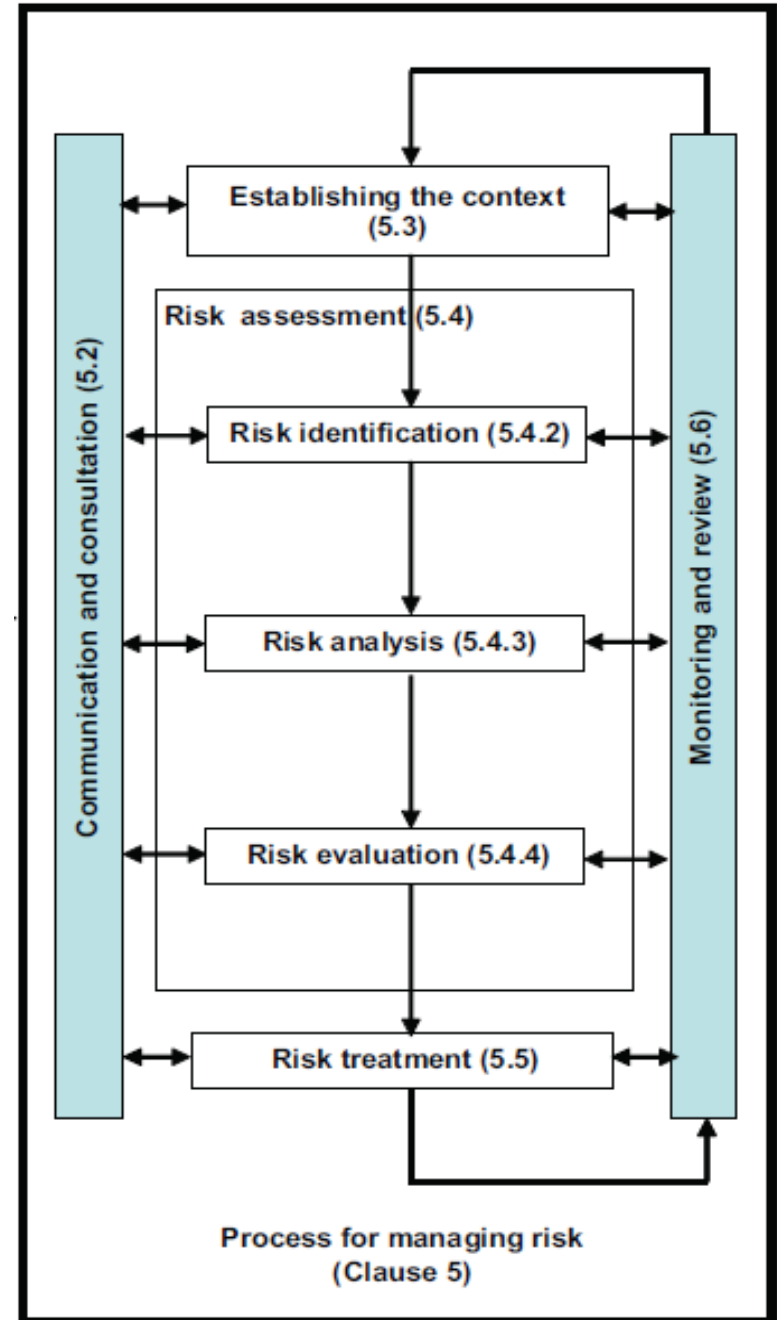
# Key definitions

## What is **enterprise** risk?

“events or circumstances that could affect either  
– the organization’s ability to achieve its  
mission or strategic objectives or  
– its reputation, strength and viability.”

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# Risk Management Process (ISO 31000)



## Two perspectives on risk: Enterprise vs. Operational

- **ERM** focuses on managing the uncertainty that exists around the achievement of strategic objectives and ensuring the long-term sustainability of the organization.
- **ORM** focuses on managing the risks that appear during the day-to-day activities of actually executing the organization's strategy

# Discussion

1. What are the major enterprise risks facing your organization?
2. What strategies are typically employed to manage these enterprise risks?
3. How are enterprise risks managed in your organization?
  - ☐ Intuitively
  - ☐ Systematically

# Common Mistake #1

## Complacency

Warning signs ...

- “It’s never happened before”
- “It can’t happen here”
- “We can handle it”
- “Ignore it and it will go away”

# Common Mistake #2

## Not understanding your risk exposure

### Warning signs:

- You haven't thought through the **possible risk events** that could befall your organization
- You haven't thought through what the **potential impact** of those risk events could be (i.e., in terms of your ability to achieve your objectives)



## One way to identify risk: ***Risk-oriented approach***

- Ask yourself: *“What are the most important risks the organization faces?”*

Method: Brainstorming

Pro: Taps into expert knowledge.

Cons:

- Prone to individual biases, group think
- Doesn't get at interdependencies between risk factors
- Tends to create very large list of risks, many of which are not significant

## A second way to identify risk: ***Objective-oriented approach***

- Ask yourself: *“What events or conditions cause uncertainty about the attainment of the organization’s goals and objectives?”*

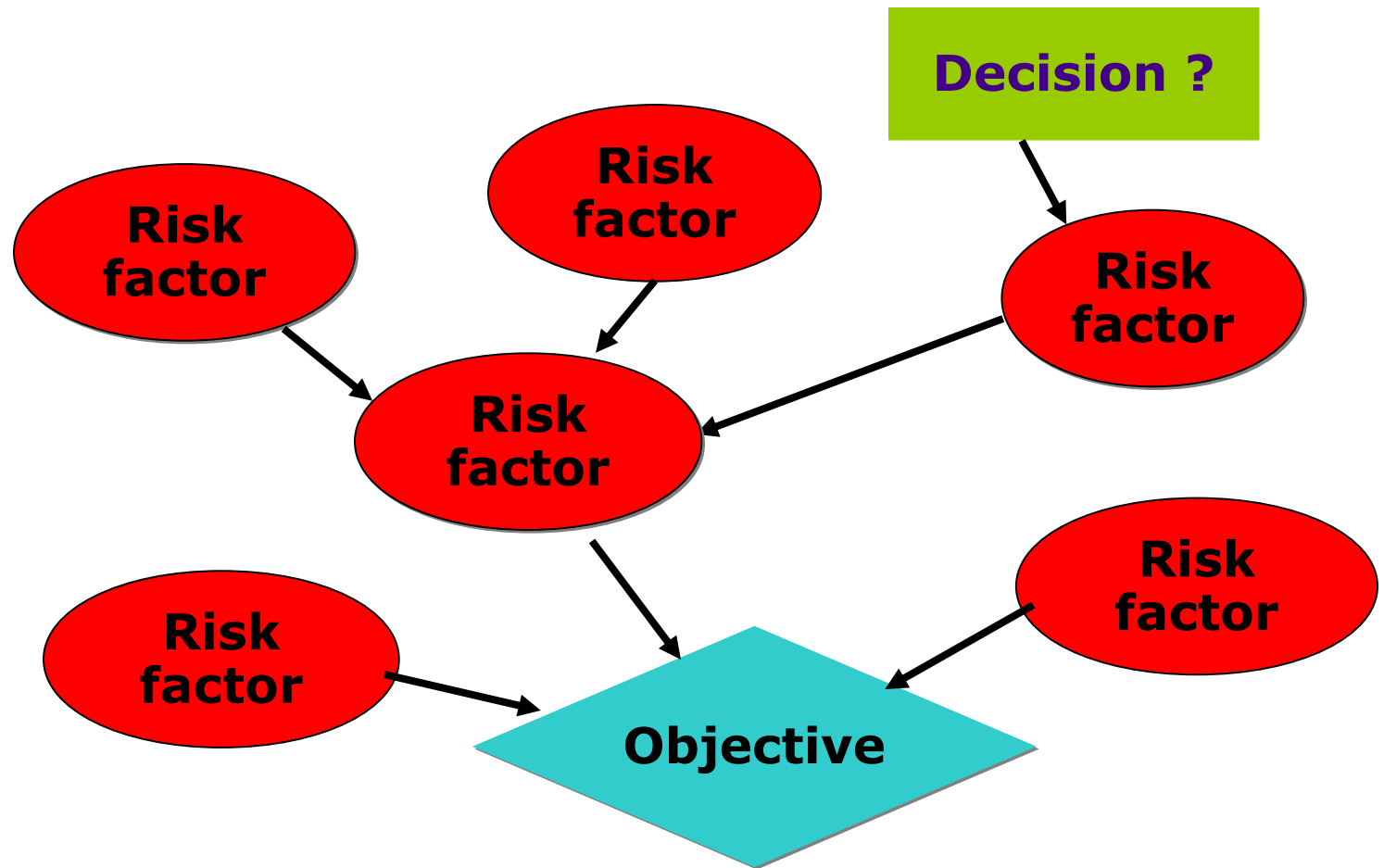
Method: Influence Diagram

Pro: This approach focuses on the things that matter most to the organization.

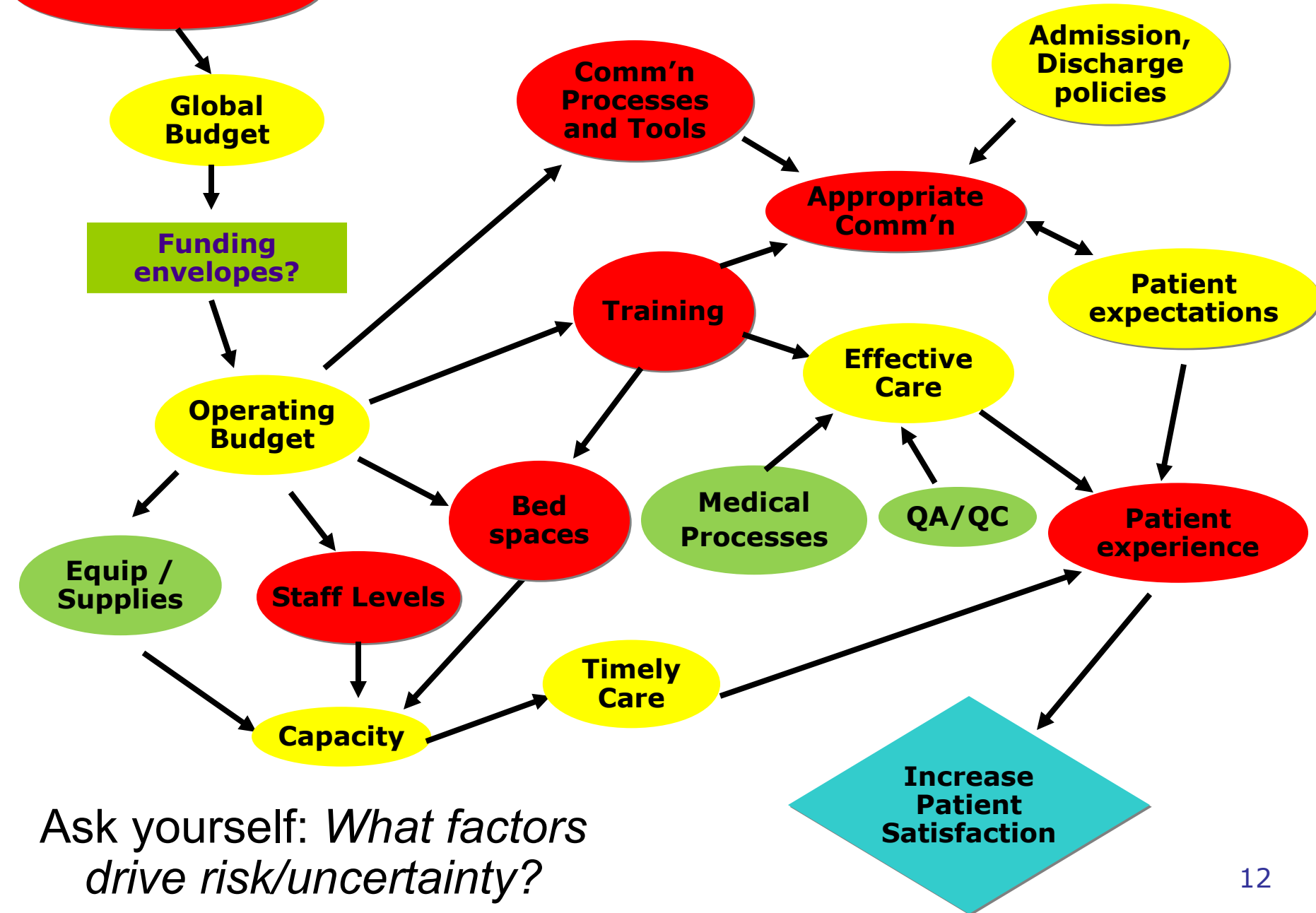
Con: Can overlook big risk factors that are outside of the organization’s main areas of interest.

# What is an Influence Diagram?

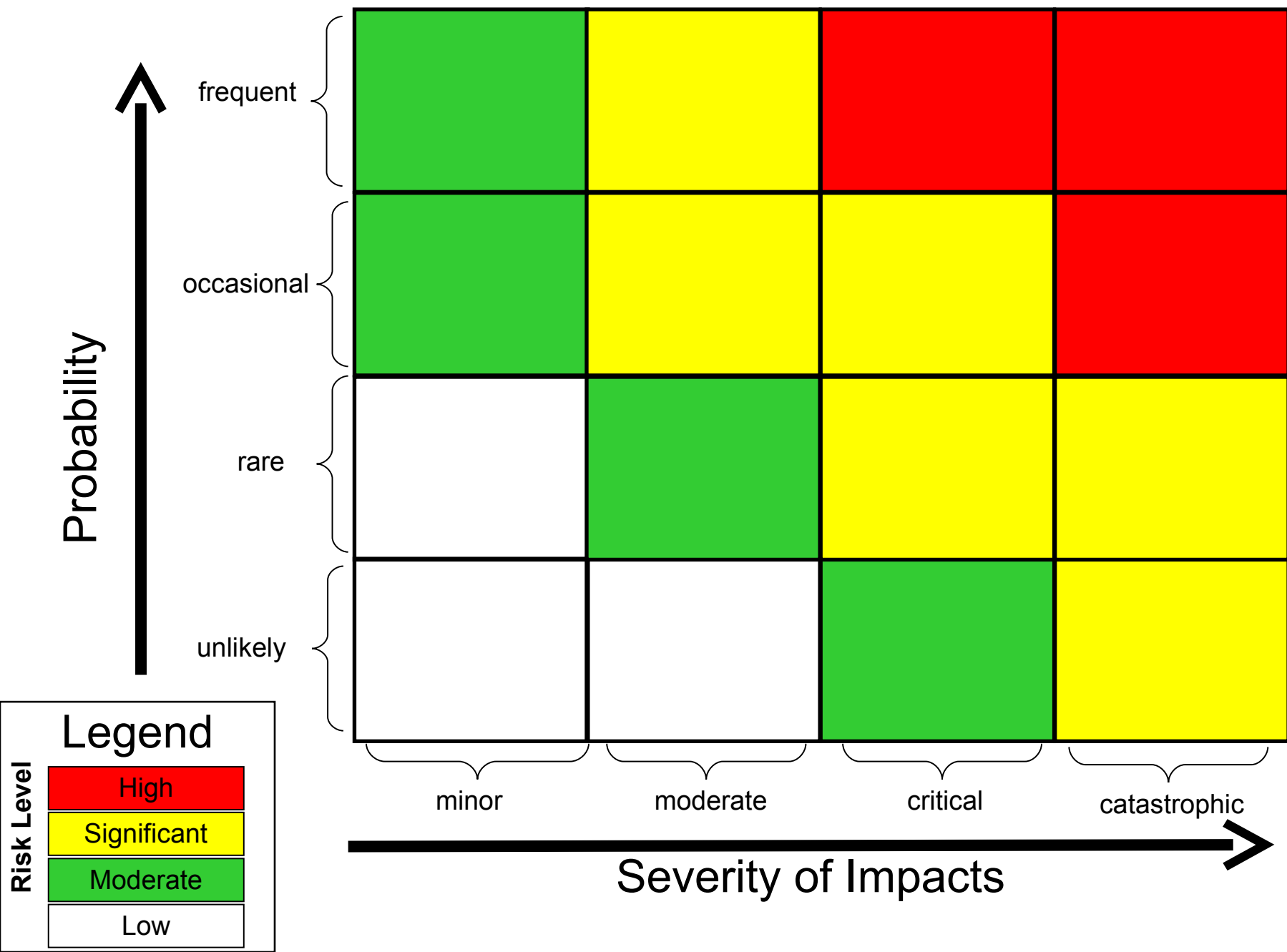
A technique for identifying and understanding the **interrelationships** between risk drivers



## EXAMPLE: A Hospital's Strategic Objective



**A Risk Matrix provides a concise profile of risk exposure.**



## Common Mistake #3

### Relying on gut instinct to assess risk

- What role should judgment, experience and intuition play in analyzing and informing strategic decisions?
- Beware the pitfalls of your gut, e.g.:
  - Mistaking beliefs & opinions for facts
  - Confirmation bias
  - Group polarization
  - Emotionally charged situations

# Common Mistake #4

## Overlooking the information you have

- 1<sup>st</sup> frame the question
- Then mine your data



Useful measurement assumptions\*:

1. Someone has measured it before.
2. You have more data than you think.
3. You need less data than you think.
4. New data is more easily accessible than you think.

\* Douglas Hubbard, author of *Why It's Broken and How to Fix It* and *How to Measure Anything: Finding the Value of 'Intangibles' in Business*

## Common Mistake #5

### Focus on the wrong risks

- Just because a risk is large, does not necessarily mean it is a priority for risk management action.
- When you don't know which risks are relevant, you will pay:
  - too much attention to insignificant risks
  - not enough attention to significant risks

### **Warning signs:**

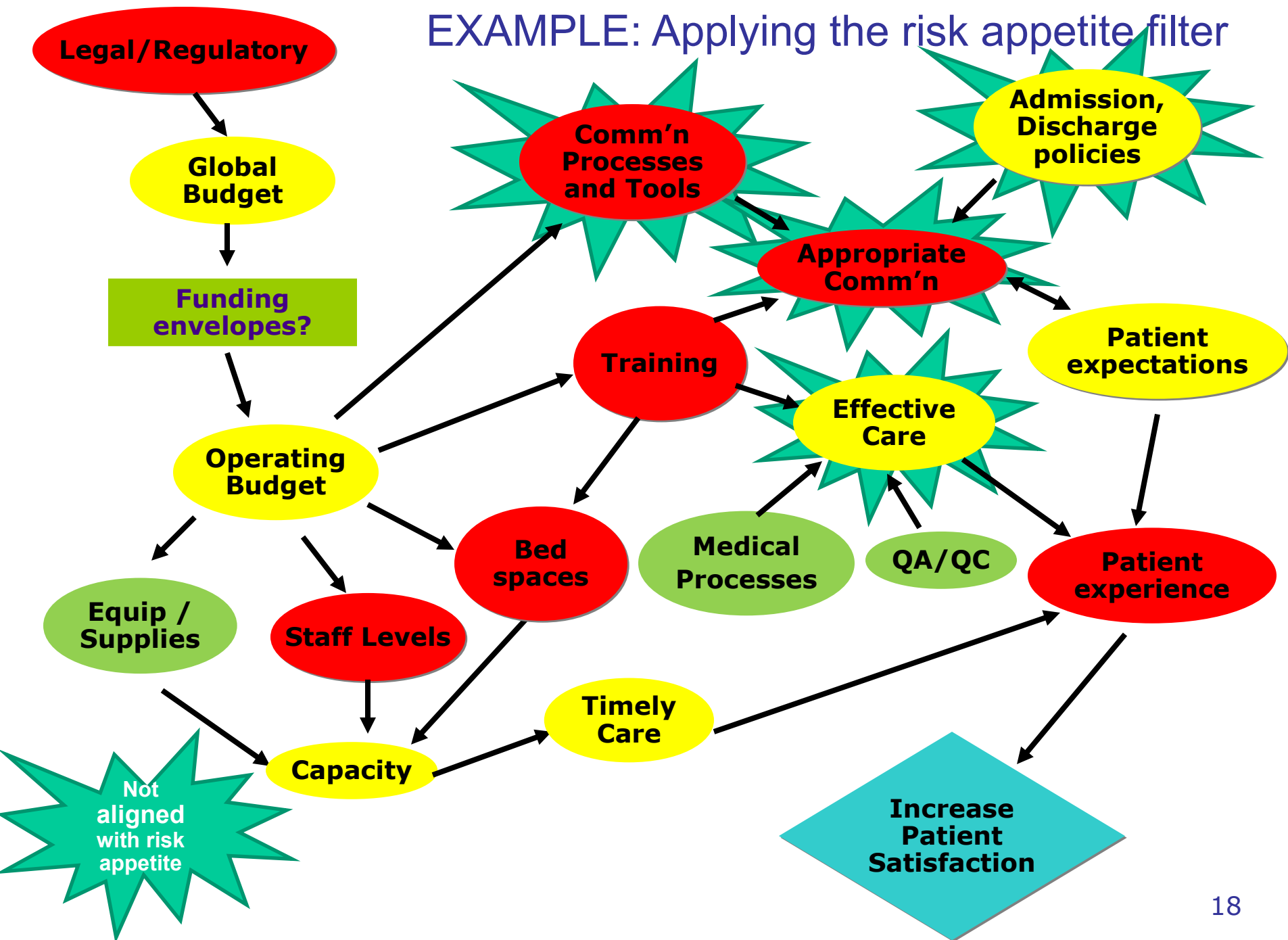
- Failure to articulate and apply risk appetite and risk tolerance.
  - Failure to monitor management effectiveness
-



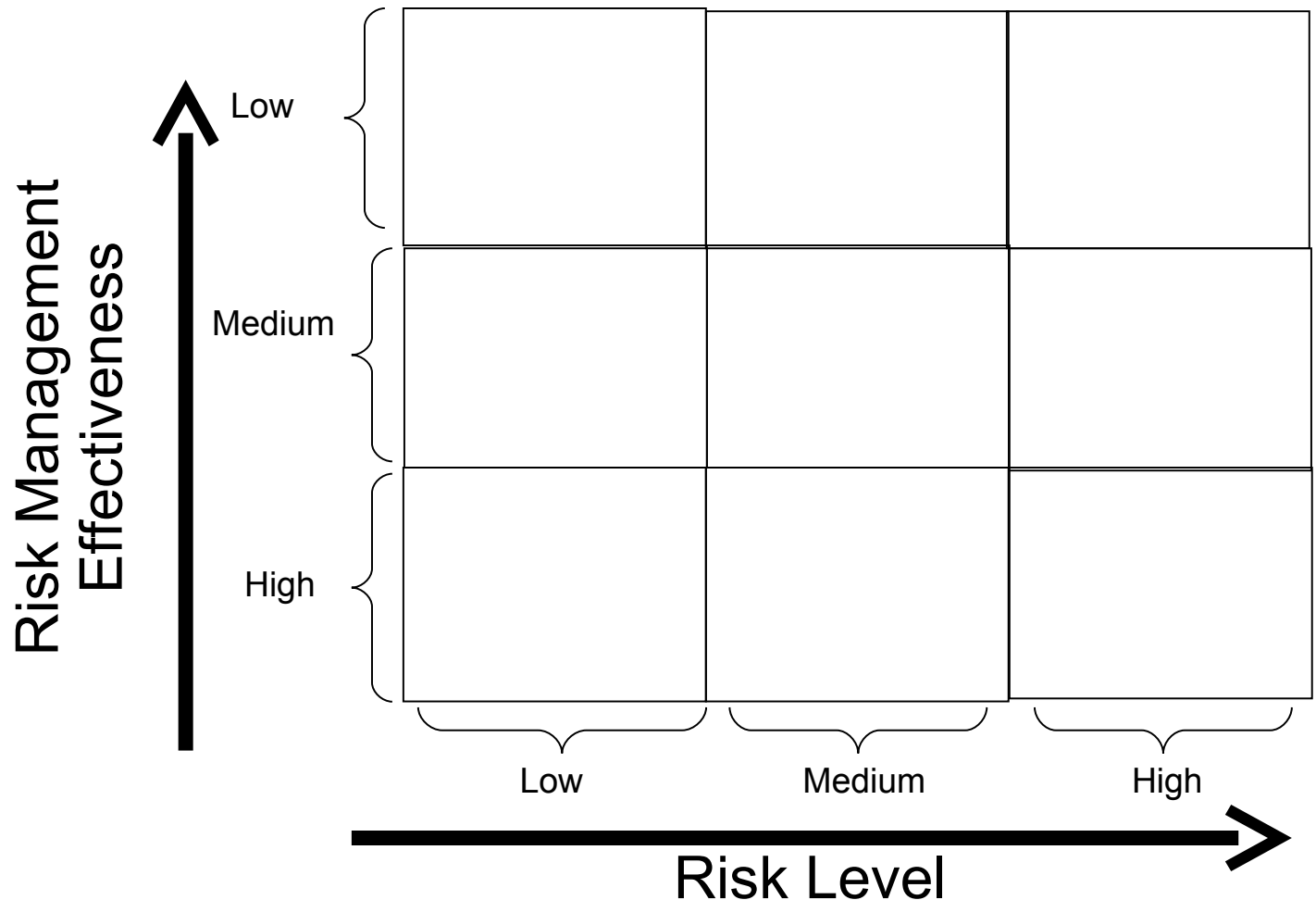
## Risk Appetite varies for different risks

1. For each type of risk, articulate how much risk the organization is comfortable with in order to achieve its objectives
2. For each risk exposure, ask: *Does this risk align with our risk appetite?*

## EXAMPLE: Applying the risk appetite filter

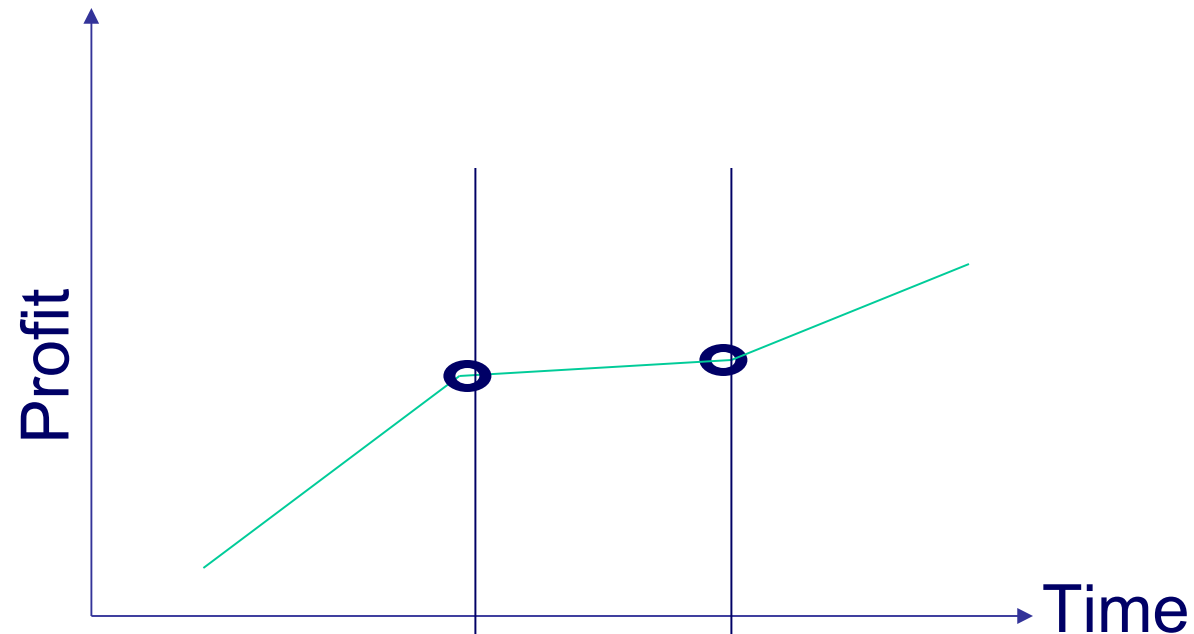


Relevance is not determined solely on the basis of risk magnitude.



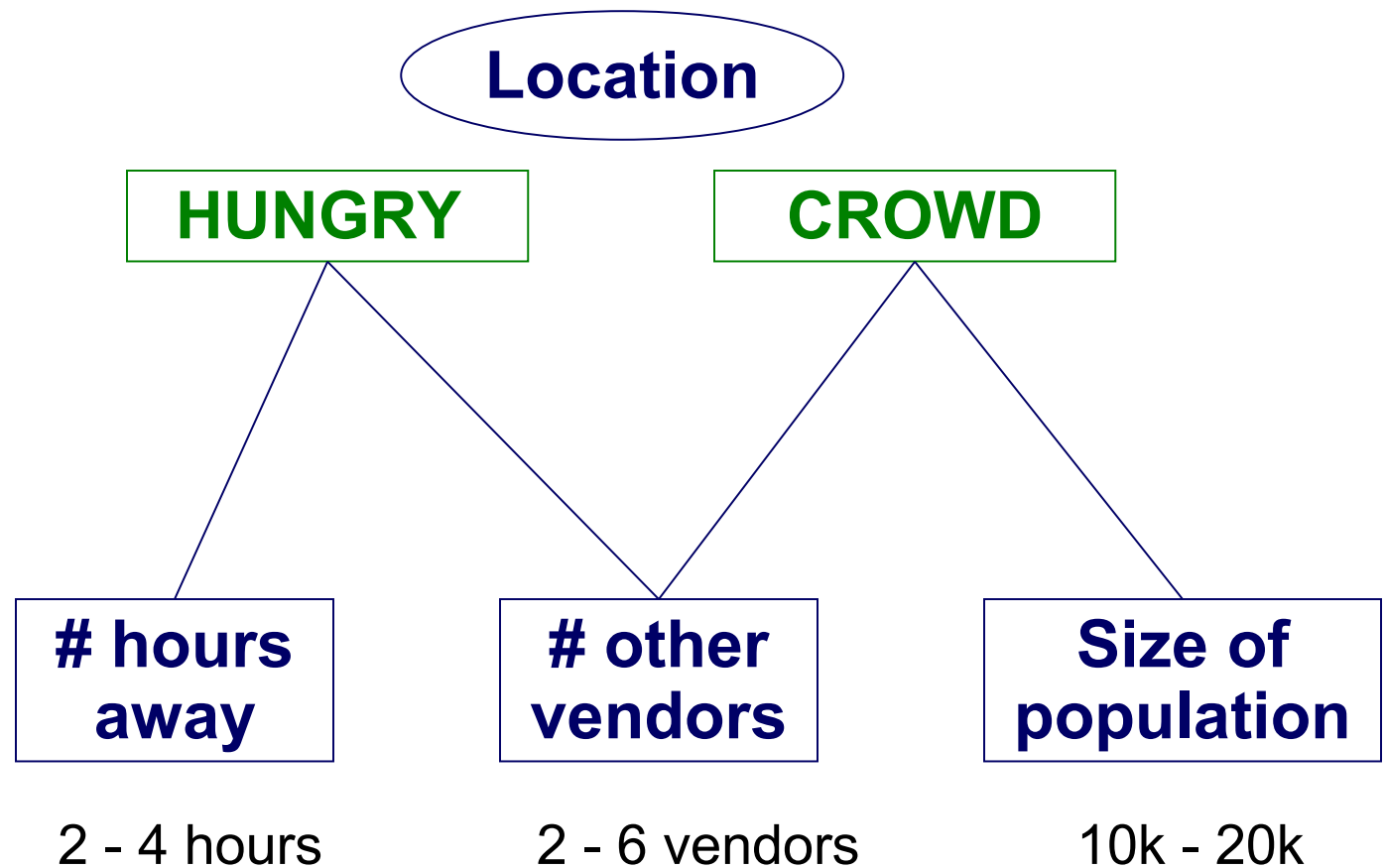
# Common Mistake #6

## Failure to link to performance mgt



Location	Hungry Crowd	✓		✓
Quality	Good Food	✓	✓	✓
Price	Reasonable Prices	✓	✓	

# Understand the drivers of variability (i.e., risk) and how they are related to performance drivers



## Common Mistake #7

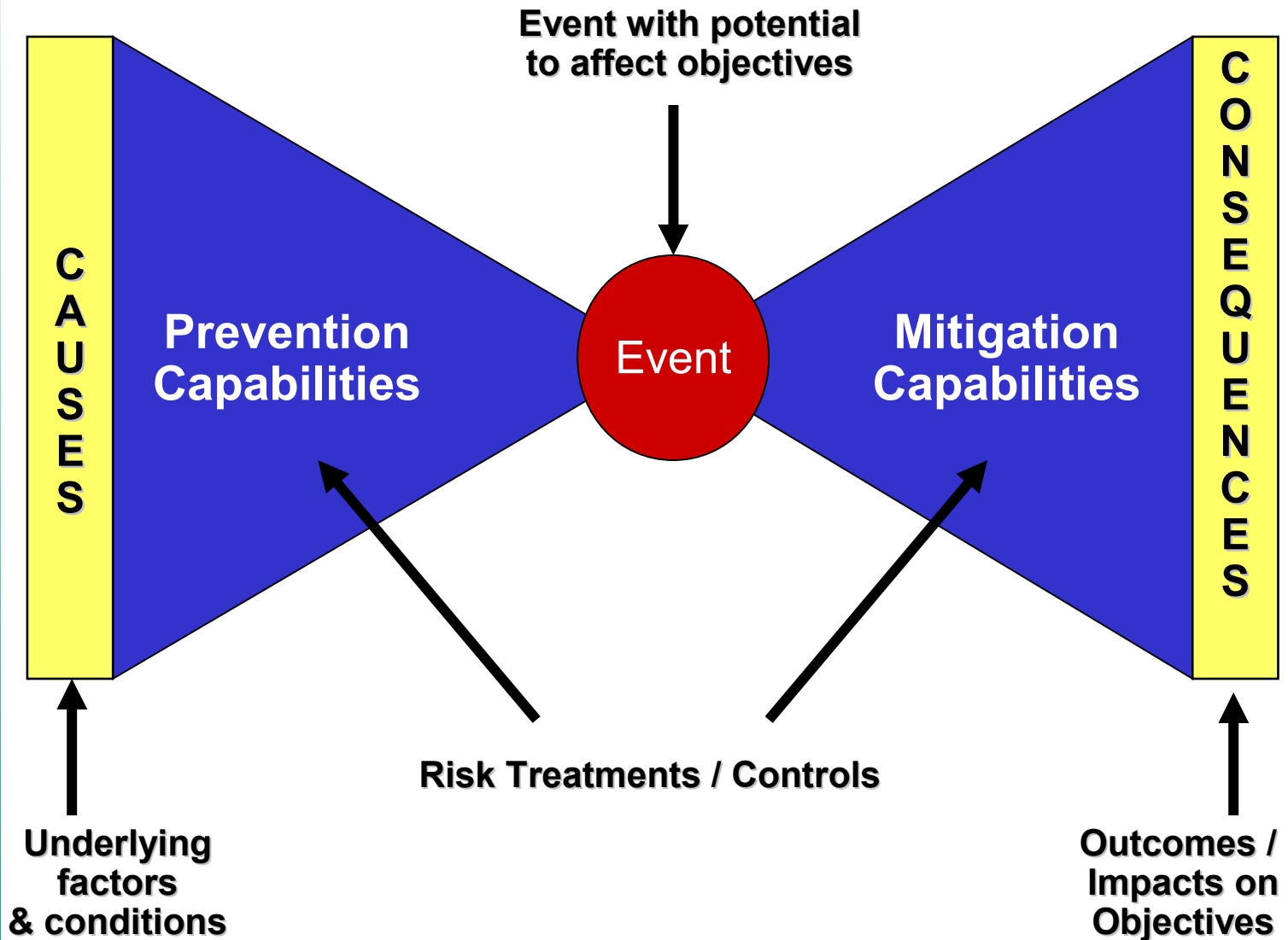
### Failure to build resilience

“It is not the strongest of the species that survives, nor the most intelligent, but the one most responsive to change”

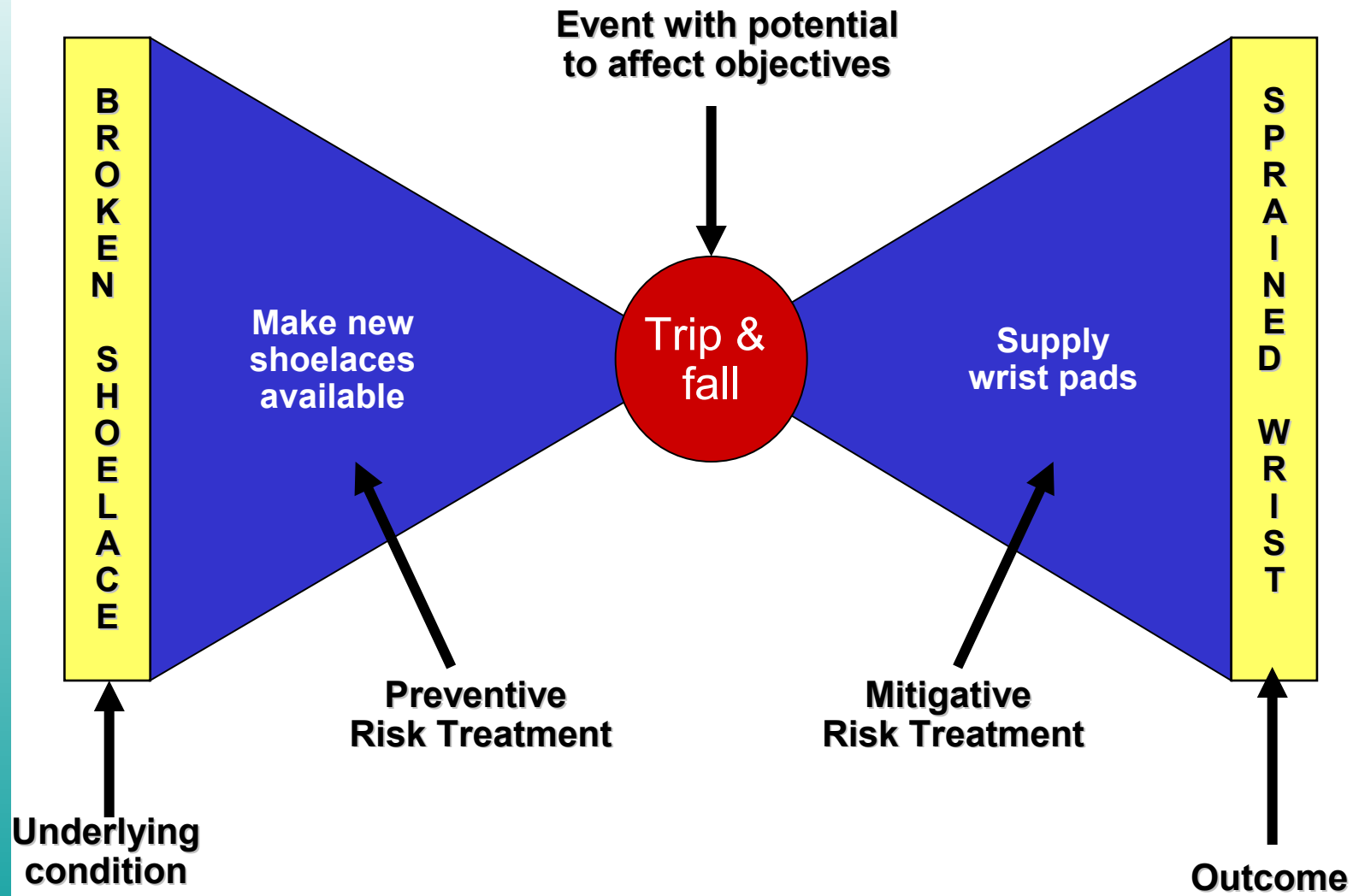
- Charles Darwin



# The Bowtie Model for deconstructing risk

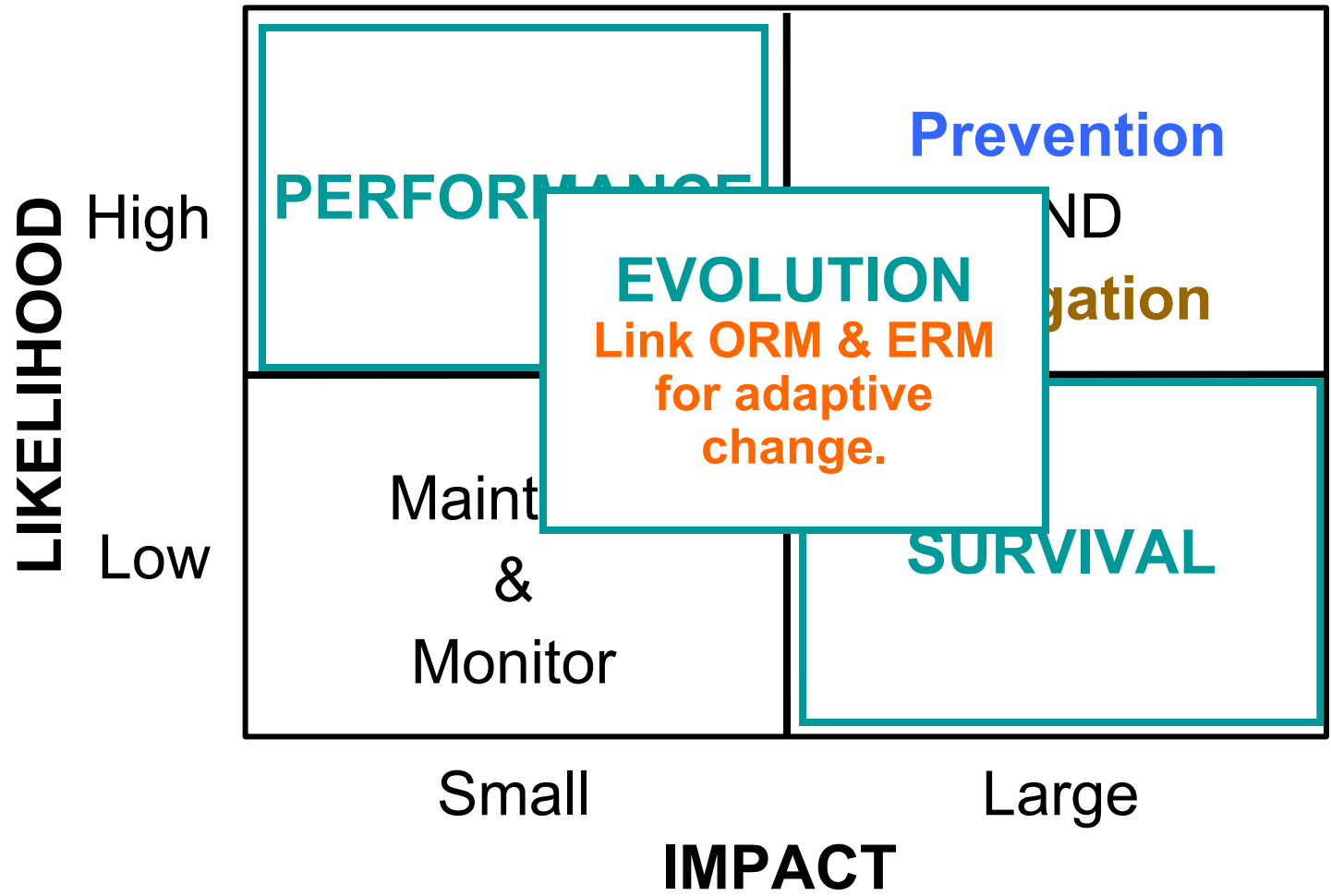


# Bowtie Example





## 2 risk disciplines, for 3 management challenges



# Common Mistake #8

## Failure to acknowledge and learn from near misses



### Warning signs:

- “We dodged a bullet. Let’s get back to work”
- Blame game

## Common Mistake #9

# Failure to seek out and listen to constructive feedback

### Warning signs:

- “No news is good news.”
- The meeting after the meeting.
- “Don’t invite Bill. He always finds problems.”
- “We can’t say that.”

# Common Mistake #10

## Failure to cultivate relationships with external stakeholders

### **Warning sign:**

- “It’s beyond our control”

Your turn...

**What other risk management mistakes do you see in your sector?**

# Questions



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Check out the ***Risk Management Made Simple*** **Advisory**, a free quarterly publication of ERM implementation tips and resources:

<http://www.riskwise.ca/advisory-a-tips.html>