Risk management – taking it to the next level

The recent Australian Prudential Regulation Authority (APRA) report of the Prudential Inquiry into the Commonwealth Bank of Australia (CBA) has highlighted that the risk culture in the CBA leaves a lot to be desired. Decisions have been made and risks taken that do not provide a fair outcome to all stakeholders.

The report states the CBA has failed to meet the community’s needs and the standards expected of a systemically important bank in Australia. It also noted that Risk Management must avoid being process focused, but instead, be outcome focused to ensure the business is not “consumed by process”.

Risk management is recognised as an essential contributor to organisational and project success, since it focuses on addressing uncertainties in a proactive manner in order to minimise threats, maximise opportunities, and optimise achievement of objectives. Despite a growing range of supporting systems, processes and tools, in practice risk management often fails to meet expectations.

The most significant Critical Success Factor for effective risk management is the one most often lacking: an appropriate and mature risk culture. Research and experience both indicate that the attitude and resulting behaviours of individuals and organisations has a significant influence on whether risk management delivers what it promises.

Effective decision making is the primary role of manager’s. Decisions made, should pass the “Should We?” test and the “Can We?” test.

Decisions need to be challenged at all levels in the organisation. The cultural focus of challenging the decisions made will uncover bias, conflict of interest, additional information and address unmanaged emotions.

Two risk-related factors are particularly influential when individuals or organizations challenge how much risk can be taken in a risky and important situation. These two key factors are risk appetite and risk attitude, which have central and complementary roles.

Both risk appetite and risk attitude are used as mediating factors to set an appropriate risk thresholds in any given situation.

Risk appetite is an internal tendency to take risk in a given situation, and it reflects organizational risk culture and the individual risk propensities of key stakeholders. But unmanaged risk appetite can lead to the wrong outcome.

Risk attitude is a chosen response to risk, driven by perception, and it can act as a control point to ensure that the right amount of risk is taken, so that the achievement of objectives is optimized.

Putting both risk appetite and risk attitude together into a single framework provides a practical approach that enables individuals and organizations to make and challenge decisions about risk.

IPWEAQ is offering a new workshop to address this topic. Critical Risk Management – moving beyond systems and processes has been specifically designed for people tasked with the management of risk at all levels within your organisation. For more information, please contact Kevin Miller on Kevin.Miller@ipweaq.com or 07 3632 6804.