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"It is so refreshing to read a newsletter that offers real solutions for risk management challenges."

Cathy Taylor
Director, Enterprise Risk
Barrick Gold Corporation

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**FEATURE ARTICLE: 4 Catalysts To Embed A Risk Management Culture**

By Diana Del Bel Belluz, M.A.Sc., P.Eng.

If you have risk management systems but your people still haven’t embraced it, you are not alone.

In a May 2008 issue of RatingsDirect, Standard & Poor’s commented that enterprise risk management (ERM) remains “underfunded and underintegrated. At most firms it’s tucked away into silos with little top-level integration or silo-to-silo communication. ... **Truly effective ERM requires** not just a high-level manager — such as a chief risk officer — to oversee risk but also a companywide commitment to incorporate ERM into the firm’s strategy, governance, and culture.”

The challenge of adopting a culture of risk management extends to all sectors. A survey Risk Wise conducted earlier this year revealed that many government departments have not yet fully embedded risk management into their business practices. This is true despite having put in place frameworks and processes for integrated risk management.

**Have your risk management efforts stalled** when it comes to making risk management come alive in your business practices? **If so, here are four catalysts that will help you to embed a risk management culture.**

**CATALYST#1: Establish Clarity Around Objectives, Strategies, Roles and Responsibilities**

Be explicit about what needs to be accomplished, how, by when, and who is responsible for what. In a recent Globe and Mail interview, Rick Hillier, Canada’s former Chief of the Defence Staff, listed the things that need to be in place for success. “A strategic vision of what we’re trying to achieve, articulate that, and articulate some of the milestones that would let us know when we’ve achieved that, then articulate the strategic road to get to it.”

**The concept of having a strategic goal and measurable objectives is fundamental to risk management.** You can’t begin to identify success and risk factors until you know what it is you need to achieve your objectives. In many public and private sector organizations, strategic objectives are more like a list of hopes and dreams than they are meaningful and measurable targets that both inspire and hold people to account.

**ASK YOURSELF: Does my organization have clear strategic objectives with explicit measurable milestones?** If people don’t know what they are working towards or how and by when they are expected to achieve their objectives, risk management cannot come to life in your organization.

**CATALYST #2: Articulate Risk Appetite & Tolerance**

These are the criteria for decision-making and they need to be determined before embarking on the process of assessing and weighing decision alternatives.

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Author Peter Drucker said “a decision is a judgment. It is a choice between alternatives… Executives who make effective decisions know that one does not start with facts. One starts with opinions. These are, of course, nothing but untested hypotheses and, as such, worthless unless tested against reality. To determine what is a fact requires first a decision on the criteria of relevance, especially on the appropriate measurement. This is the hinge of the effective decision, and usually its most controversial aspect.”

Articulating risk appetite and tolerance sets the goal posts for risk-informed decision-making. Without decision criteria, it is easy to start with the conclusion and then look for the facts to support it.

ASK YOURSELF: Has my organization articulated its risk appetite and tolerance? If people don’t know what the criteria are for decisions, risk management cannot come to life in your organization.

CATALYST #3: Use Risk Intelligence to Drive Excellent Performance

If we define risk as events or conditions that create uncertainty around the achievement of objectives, then clearly, risk and performance are linked. To systematically manage performance requires developing an understanding of the relationship between the drivers of performance and risk, including the development of measures to track risk factors and quantify their impact on performance.

For example, imagine ‘knowledgeable staff’ is a key performance driver for a specific objective and the associated risk factors are the ability to hire and train staff to the required level of knowledge. If we notice a downward trend in the knowledge level of new recruits or that people are completing our training programs without staff to the required level of knowledge, if we notice a downward trend in the knowledge level of new recruits or that people are completing our training programs without achieving the level of knowledge required, we can intervene in a timely manner. But if we don’t know about or own up to the facts of reality, performance will inevitably suffer.

ASK YOURSELF: Has my organization linked its risk and performance indicators? If you don’t understand how risk can affect your objectives and don’t establish and track risk indicators, risk management cannot come to life in your organization.

CATALYST #4: Foster Dissent and Inquiry

Business guru Peter Drucker advises that the kind of decisions the executive has to make “are made well only if based on the clash of conflicting views, the dialogue between different points of view, the choice between different judgments.”

In his book Why Great Leaders Don’t Take Yes for an Answer, Michael Roberto explains that decision-makers need to foster conflict and dissent to ensure that the course of action selected enables the organization to achieve its performance objectives in a way that optimizes resources and balances risk better than all other plausible alternatives.

The risk discipline provides a range of methods to assess the alternative courses of action among which the executive must decide. This includes estimating the potential likelihood and impact on outcomes of each alternative and characterizing the underlying uncertainties and assumptions.

For a risk assessment process to be effective, it must bring to the surface all critical information for the decision at hand. This can’t be achieved if the organization has a culture of silence in which people are afraid to speak the truth. In the research for his book Good to Great, Jim Collins discovered that ‘great’ companies continually refine the path to greatness by confronting the brutal facts of reality. (Read this month’s Bonus Resource article to learn more.)

One of the biggest contributions you can make is to question how well your organization’s risk estimates reflect its particular reality. This includes distinguishing between the beliefs, opinions, and facts that go into any estimate of risk and ensuring that together they present an accurate and meaningful picture of reality. And it requires fostering a culture of inquiry in which frank and open discussion occurs about those beliefs, opinions, and facts.

Initial assessments of risks may have to be based on opinion, particularly when a decision takes you into unchartered waters about which you have little data or experience. However, to ensure that the risk discipline provides relevant information, risk estimates must be transitioned as quickly as possible to evidence-based measures. It is only through a commitment to uncovering the brutal truth of reality that one can distinguish between valid and invalid assumptions and guard against willful blindness.

ASK YOURSELF: Does my organization foster dissent and inquiry in its strategic decision-making? If the truth can’t be heard, risk management cannot come to life in your organization.

The Risk Wise bottom line...

These 4 catalysts are the fundamentals of effective decision-making espoused by successful executives and essential mechanisms to equip and motivate your people to adopt a risk wise management culture.

Tell me what catalysts you’ve used to drive risk management behaviour in your organization. I appreciate receiving emails with your tips and success stories at Diana.Belluz@riskwise.ca
In the research for his book *Good to Great*, Jim Collins set out to answer the question ‘Can a good company become a great company, and if so, how?’ He began by identifying companies that showed a good-to-great pattern, i.e., they started out with 15-year cumulative stock returns at or below the general stock market, then experienced a transition point after which they had cumulative returns at least three times the market over the next 15 years. Collins picked 15 years because one can’t consistently outperform the market for 15 years based on luck alone.

He then compared the ‘great’ companies with two control groups. One control group was ‘direct comparisons’, i.e., companies in the same industry and with the same opportunities as the good-to-great companies but that did not make the transition to great performance. The other control group was the ‘unsustained comparisons’, i.e., companies that made a short-term shift from good to great but were unable to sustain it for 15 years.

Collins discovered several patterns that distinguished the good-to-great companies from the two comparison groups. Here is a selection of his findings that relate to the ability to confront ‘the brutal facts of reality’, discussed in this month’s Feature Article. These insights are relevant for risk management leaders in corporate, government and not-for-profit organizations.

- “All the good-to-great companies began the process of finding a path to greatness by confronting the brutal facts of their current reality. When you start with an honest and diligent effort to determine the truth of your situation, the right decisions often become self-evident.” “Even if all decisions do not become self-evident, one thing is certain: You absolutely cannot make a series of good decisions without first confronting the brutal facts.” To truly inform decision-making, risk managers must ensure that their discipline produces realistic assessments of the risks associated with each decision option.

- “A primary task of taking a company from good to great is to create a culture where people have a tremendous opportunity to be heard, and ultimately for the truth to be heard”. By providing a thorough assessment of the positive and negative potential outcomes of various decision options the risk discipline allows the full truth to be heard.

- The good-to-great companies “continually refined the path to greatness with the brutal facts of reality.” By monitoring risk and performance indicators, the risk discipline provides the information to refine the path to strategic objectives.

- “Leadership does not begin with just vision. It begins with getting people to confront the brutal facts and to act on the implications.” By identifying the implications of risk to objectives, managers will be motivated to act on them.

- “Spending time and energy trying to motivate people is a waste of effort. … The key is not to de-motivate them. One of the primary ways to de-motivate people is to ignore the brutal facts of reality.” If risks are identified and then nothing is done about them, people will be loathe to participate in the risk management process.

- Every good-to-great company faced significant adversity along the way to greatness. In every case, the management team responded to adversity with a powerful psychological duality that Collins calls the Stockdale Paradox*. “On the one hand, they stoically accepted the brutal facts of reality. On the other hand, they maintained an unwavering faith in the endgame, and a commitment to prevail as a great company despite the brutal facts.” Collins asserts this duality is the signature of greatness. The Stockdale Paradox isn’t just an organizational characteristic but also a personal one for risk managers.

*To learn more about the Stockdale Paradox, a key psychology for leading from good to great, visit: [http://www.jimcollins.com/lab/brutalFacts/index.html](http://www.jimcollins.com/lab/brutalFacts/index.html)
Upcoming Enterprise Risk Management Event

How sharp is your organization’s risk intelligence?

As many of you know, I am on a mission to make systematic risk management a standard business practice. I work towards this goal on a one-to-one basis with my clients, and on a one-to-many basis through my publications, speaking engagements, and conference programming activities.

I invite you to join me in enhancing risk management by participating at the following event:

**January 28 and 29, 2009** (with Optional Workshops on January 27th and 29th)

**The Conference Board of Canada’s**

**2009 Enterprise Risk Management Conference**

*Sharpening Your Risk Intelligence*

**Toronto, Ontario**

At The Conference Board of Canada’s 2009 ERM conference, delegates will learn how to integrate the mechanics and culture of risk intelligence into their organizations.

The event features ERM pioneers and experts with experience in implementing ERM initiatives that sharpen risk intelligence and contribute to better organizational results more consistently. Speakers represent a wide range of organizations in the corporate, government and not-for-profit sectors.

For the 9th year, Diana Del Bel Belluz has developed the program for Canada’s premiere Risk Management event. For details and to register, visit:

http://www.conferenceboard.ca/conf/jan09/enterprise/default.asp

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**About Us**

Diana Del Bel Belluz, M.A.Sc., P.Eng., is a risk management advisor who helps executives in large organizations to implement systematic and sustainable risk management practices. Since 1990, Diana has been doing leading-edge risk work for companies in a wide range of industries and government organizations.

In addition, Diana advances the field of risk management by teaching university courses and management training seminars, speaking at conferences and authoring publications on a wide range of risk management topics.

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