

Risk Management Made Simple **Advisory**

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for **executives** and **management professionals**
from **Risk Wise Inc.** and **Diana Del Bel Belluz**

March 27, 2017

BONUS RESOURCE: How to Leverage 'The Global Risks Report 2017' to Enhance Your Risk Intelligence – PART 3

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

This is the third article in a 3-part series on **how risk management leaders can enhance their organization's risk intelligence by leveraging [The Global Risks Report 2017 - 12th edition](#)** released by the **World Economic Forum**. Each article in the series focuses on how to bridge one of these common gaps in ERM performance identified in the **Risk Wise Risk Intelligence Benchmarking Survey**:

1. **Weak understanding (and monitoring) of trends** (covered in [PART 1](#) of the series)
2. **Failure to cultivate foresight** (covered in [PART 2](#) of the series)
3. **Failure to understand interdependencies** (covered in this article)

(N.B. A more fulsome analysis of the **Risk Wise Risk Intelligence Benchmarking Survey** is forthcoming. In the meantime, this 3-part series provides a sneak-peak of a few survey findings on a topic where a majority of organizations have significant opportunities to improve.

Common ERM Gap #3: Failure to Understand Interdependencies

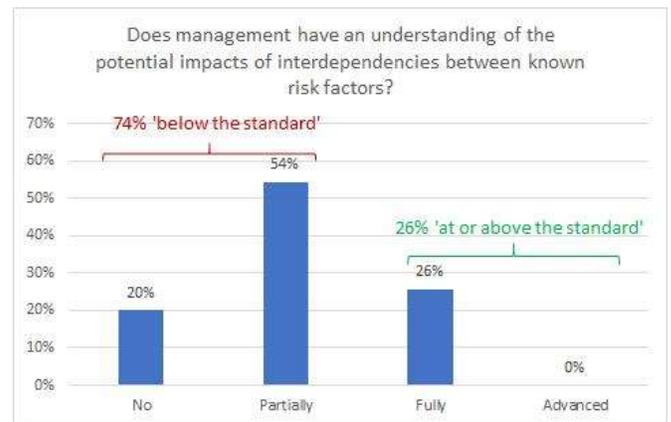
The World Economic Forum website highlights that **"2016 was a remarkable year with economic, social and political risks becoming increasingly interlinked."**

A high level of interdependencies between risks is hardly surprising given the complexity and interconnections between our world's political, social, economic, and environmental systems.

What is remarkable is that, in striking contrast to the complexity of business environments in which their organizations operate, many risk management programs essentially ignore how risks combine and cascade in the real world. This failure of risk management programs to systematically address interdependencies between risks is widespread.

Figure 1 shows that **74% of organizations admit that management doesn't have an adequate understanding of the potential impacts of interdependencies between known risk factors**, and none of the organizations surveyed in our Risk Intelligence Benchmarking Study reported having advanced practices in this area.

Figure 1: Result of question #12 of the *Risk Wise Risk Intelligence Benchmarking survey*



While some situations we deal with are simple, many are not. **The world around us is complex and most strategic issues involve multiple and interconnected risks.** When we ignore the interdependencies between risks, we end up producing oversimplified analyses that cause us to miss or underestimate some risks, while overestimating others. If the information produced by the risk assessment process is perceived as facile, the entire risk management program will be undermined because decision-makers will view it as irrelevant.

Continued on page 2...

(... continued from page 1)

Why do so many of us ignore the interdependencies between risks? Here are three reasons that constitute the most common barriers to getting a proper handle on interdependent risks:

1. **It's counter to our cognitive nature to think about more than one thing at a time.** It is cognitively natural to consider risks individually and actually requires deliberate effort to think through inter-linkages and their effects. In fact our brains are optimized for rules of thumb that simplify decision-making to make our cognitive load manageable. Even when examining past risk events, we tend to quickly jump to single root cause rather than taking a little more time and effort to understand the more realistic range of causal factors and how they combined or cascaded to produce the event.
2. **Many decision-makers lack advanced computational skills and experience** necessary to untangle and quantify interdependencies. It is computationally much easier to measure individual risks than to quantify the implications of multiple, interdependent risks.
3. **Many risk management programs introduce systemic barriers.** While techniques exist to identify and evaluate interdependent risks, most risk management standards espouse methodologies that focus on risks individually, and give little practical guidance on how to handle interlinked risks.

The next tip provides a simple approach for understanding interdependencies between risks.

Tip: Borrow the World Economic Forum's Methodology

For several years now, *The Global Risks Report* published by the **World Economic Forum** (WEF) has included a mapping of interconnections between global risks. Appendix B of [The Global Risks Report 2017 12th edition](#) shares the methodology used for the latest survey including for identifying and analyzing interdependencies.

Here's an adaptation of the WEF methodology that can be used by an organization **to identify and understand the interdependencies between its enterprise risks.**

A SIMPLE METHODOLOGY for analyzing key interdependencies between *known* risks.

1. **Share a list of your top enterprise risks** with your people.

2. **Ask them to identify interconnections between know risks.** You can use a question such as: "Our enterprise risks are not isolated and it is important to assess the most strongly connected enterprise risks? Please select three to six pairs of enterprise risks."
3. **Analyse the pairs selected**, e.g., which are most common? If possible display the results graphically.
4. **Explore the implications of the interlinkages with your people**, e.g., ask:
 - a. "Do the interdependencies magnify or dampen the overall impact of the risks compared to when the risks were assessed separately?"
 - b. "Given the extent of the interdependencies, what, if any, changes to our current risk response strategies should be considered?"

This year, *The Global Risks Report* added an analysis of the interconnections between risks and trends. Here's an adaptation of the approach that gives you a **simple methodology to help decision-makers** in your organization to better understand **how environmental trends can drive and shape the organization's risk exposures.**

A SIMPLE METHODOLOGY for analyzing how trends can interact to drive *future* risks.

1. **Share with your people the list of your organization's enterprise risks and the list of the trends in your business environment** (see **PART 1** of this series for tips on how to compile your list of trends),
2. **Ask your people:**
 - a. **"Which are the three most important trends that will shape our business in the next 10 years?"** (N.B., There is no magic about the 10 year time horizon. You could pick a longer or shorter one, but aim to use a time horizon that is longer than your strategic planning cycle.)
 - b. **"For each of the three trends identified in the previous question, select up to three enterprise risks that are most strongly driven by these trends."**
 - c. **Analyze the results** to better understand how the trends in your environment can interact to influence your future risk exposures. If possible display the results graphically.

Continued on page 3...

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The *Risk Wise* bottom line...

Although most organizations operate in complex business environments, **many risk management programs essentially ignore how risks combine and cascade** in the real world. To explore additional strategies for building up your organization's capabilities **to understand how the linkages between risks affect your risk exposures, contact Diana Del Bel Belluz** at Diana.Belluz@riskwise.ca or (416) 214-7598.

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About Us



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

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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