

Risk Management Made Simple **Advisory**

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

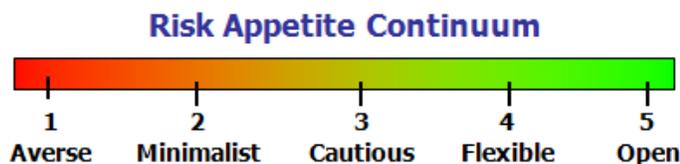
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BONUS RESOURCE: How to Measure Risk Appetite

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

Last fall I had the pleasure of co-presenting a session on **Risk Appetite** with **Rob Quail** of **Hydro One** Inc. He shared a novel approach that he documented in his article **Defining Your Taste for Risk**. You can access the article on the **Risk Wise Reading List** at: <http://riskwise.ca/resources.html>

The article **provides a scale to help people gauge their risk appetite** along this continuum:



In his article, Quail explains that **risk appetite is context dependent**. He then goes on to illustrate the 5-points on the risk appetite continuum along **four dimensions** (philosophy, tolerance for uncertainty, choice, tradeoff) **that assist people to apply the scale to any particular strategic objective or risk**. At the **"Averse"** end of the continuum, extremely conservative risk-taking and risk management behavior is expected, e.g.:

- **Philosophy:** "Sacred" – avoidance of risk is a core objective
- **Tolerance for uncertainty:** Extremely low
- **Choice:** When faced with multiple options, will choose the one with the lowest risk, always
- **Tradeoff:** Will never trade off this objective against others Will take justified risks

Whereas at the **"Open"** end of the continuum, a more aggressive stance is encouraged, e.g.:

- **Philosophy:** Will take justified risks
- **Tolerance for uncertainty:** Fully anticipate uncertainty or volatility in results
- **Choice:** When faced with multiple options, will choose the one with the highest return and accept the possibility of failure
- **Tradeoff:** Willing to trade off this objective against others

Of course, **each organization must customize its own scale** to reflect its particular business context. The scale is a key tool to:

1. **Define the target risk appetite** with your executive leadership team and board. This sets out the expectations for risk-taking behavior.
2. **Measure the actual** risk appetite and identify any gaps between *exhibited* and *desired* levels.
3. **Evaluate and align** risk appetite across the organization to enhance performance.

Rob will be one of the featured speakers at the **Risk Appetite Seminar** hosted by **Risk Wise** on **September 5th** in **Toronto**. The seminar agenda includes a live simulation that brings to life the key concepts in Rob's article.

For information on the seminar, please contact me at Diana.Belluz@riskwise.ca or visit:

<http://www.riskwise.ca/events.html>

About Us



Diana Del Bel Belluz
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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.

To learn more about Risk Wise, contact Diana Del Bel Belluz directly at: Diana.Belluz@riskwise.ca



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