

Risk Management Made Simple **Advisory**

Welcome to the FREE Online Newsletter about **Systematic Risk Management**
for **executives** and **management professionals**
from **Risk Wise Inc.** and **Diana Del Bel Belluz**

October 2013

FEATURE ARTICLE: Creating a Healthy Risk Management Culture – Part 5

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

This is Part 5 of a series of articles that **define 12 cultural traits that are essential for a healthy risk management culture.**

The earlier articles in the series covered eight of the 12 ERM culture traits (shown in green font in Figure 1):

- **Part 1 (Sept. 2012):** **Accountable** and **Proactive**
- **Part 2 (October 2012):** **Systematic** and **Open**
- **Part 3 (March 2013):** **Inquiring** and **Vigilant**
- **Part 4 (August 2013):** **Performance-oriented** and **Collaborative**

In this article, I provide tips on how to promote two more of the 12 essential traits for a healthy risk management culture, i.e., being **Prepared & Ready** and **Innovative**.

Healthy Risk Culture Trait #7: Prepared & Ready

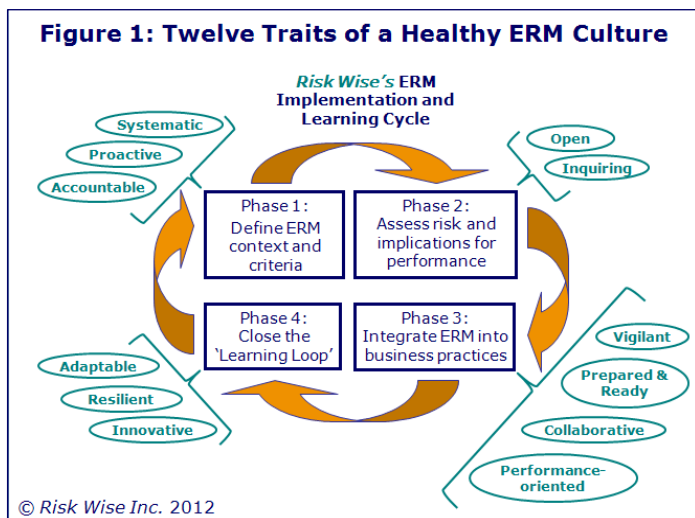
To illustrate the trait of being *prepared & ready*, I use the **image of an Olympic sprinter at the starting line.** The race may transpire in a matter of seconds but **to qualify and to win, it takes years of preparation,** including training and running in other competitions that *simulate* the Olympic experience.

The same is true for managers. **Managers often have very little time to decide how they will act** when a new risk arises or when a risk transforms from a potential event to a crisis situation. To ensure that managers take appropriate action in that instant where the organization is depending on them, they need to prepare themselves.

A weakness of many ERM programs is that they focus almost entirely on identifying and assessing risks, and invest scant attention or resources into creating a state of readiness by:

- **Developing solid risk response plans.** Hope is not a plan. Neither is a vague risk response strategy.
- **Putting in place the capabilities necessary to execute their risk response plans.** Too often, **managers make overly optimistic assumptions about how well their people would respond to risks.** Worse, they never test those assumptions.

Continued on page 2...



The 12 cultural traits support specific phases of the **ERM Implementation and Organizational Learning cycle.** (For details on the cycle, see the Advisory issues of [April 2011](#), [October 2011](#), [December 2011](#), [March 2012](#)).

How to cultivate it:

First, you need to make it a discipline for each risk to **develop a solid plan that spells out what you will do** when the risk materializes. Your risk response plans not only outline what needs to happen, but also **define the roles and responsibilities** for everyone who has a part to play in the risk response.

Having a plan is of little use if you don't have the capabilities to execute it. So the **second** thing you need to **ensure your organization's readiness to execute the plan**.

This includes **communicating the plan** to make people aware of their roles and responsibilities. It also means **investing in developing the risk response capabilities required** to actually execute your strategies and plans. This could include training your people, acquiring equipment, or establishing relationships with third parties.

The **third** thing you need to do is **practice your risk response plan** using role play, table top exercises or drills. In this month's **Bonus Resource**, retired astronaut **Chris Hadfield** talks about the importance of simulating your response.

Simulation enables you to test your plans. You can pick a different risk to practice each time. Or you can make up a scenario by selecting some factors in your business environment and playing them out to their extreme. Or you can use scenarios based on past incidents or near misses. When a crisis befalls another organization, never miss an opportunity to explore, "Are we prepared and ready if that happened here?"

Rehearsing your risk responses is an excellent way to reinforce your people's training and to **deepen your understanding of your people's true readiness**. Another advantage of having your people participate in a simulation is that it can make them **feel the discomfort of not being prepared for a risk**. That creates an emotional motivation to improve that simply reading a plan cannot.

Finally you need to **periodically adapt and optimize your risk response strategies** to stay current with changes in your business environment.

Healthy Risk Culture Trait #10: Innovative

The iconic image of innovation is a light bulb that signifies a flash of brilliant and fully formed original solution, e.g., a disruptive technology. But that is not how innovation happens, at least not in organizations.

Innovation is better represented by the image of the Wright brothers repeated attempts to get their new and untested plane off the ground. That's because **whenever you introduce a new idea or apply an**

old idea in a new way, the outcome is uncertain, i.e., **it's an experiment**. And with any experiment, there is always a distinct possibility that it may fail.

An original idea is not enough for successful innovation. The true secret ingredient is a willingness to experiment with applying new approaches and a certain amount of tolerance of failure. **Risk management will stifle innovation if it engenders or perpetuates an unhealthy fear of failure.**

How to cultivate it:

Encourage managers to try new ways of doing things, including efforts to enhance the management of risk. The conventional wisdom in the field of innovation is that companies must make "1000 flowers bloom" to have one that is successful. **Make room for creativity by allowing and encouraging experimentation and failure.** For example, **Ratan Tata**, retired chairman of the multinational conglomerate **Tata group** recommends investing in an annual prize for the best failed idea.

"Failure is a gold mine for a great company."
Ratan Tata, Chairman of the Tata group

Never look on failed experiments as career limiting mistakes. Rather treat them as a **source of valuable information to be mined for designing future strategies**. For example, even if your experiment fails, you will gain important insights about what to fix or enhance before you try again, or, indeed if the idea merits a second attempt.

Define up front, what can be learned from the experiment. Risk management thinking can play an important role in innovation by identifying key sources of uncertainty in prospective innovations. This enables you design the 'experiment' such that you can gain new information that reduces that uncertainty. It will help you decide if the innovation merits more nurturing or if it is time to let it die.

The Risk Wise bottom line... To be prepared and ready to handle risk, you need a response plan, the capabilities to execute your plan, and **you need to regularly rehearse your plan**. If you want innovation in your business and in your ERM program, you need to **develop a tolerance for failure**.

*

My forte is coaching executives on how to integrate ERM into their organization's unique business practices and culture. **If you want simple, pragmatic strategies to strengthen the ERM discipline and engender a culture of readiness and innovation in your organization, contact Diana Del Bel Belluz at Risk Wise: <mailto:Diana.Belluz@riskwise.ca>** or by telephone at (416) 214.7598

About Us



Diana Del Bel Belluz
President
Risk Wise Inc.

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



1 Yonge Street
Suite 1801
Toronto, Ontario
Canada M5E 1W7
T 416.214.7598
www.riskwise.ca