



Presenting:

## **The Convergence of Risk Management and DA**

**by Carl Spetzler**

DAAG Conference 2018

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# The Convergence of Risk Management and DA

**DAAG 2018**

**Carl Spetzler**

April 12, 2018



# What is a risk anyway? When is it an opportunity?

I am offering a valuable instrument.

- It is free.
- Success is contingent on calling the flip of a coin correctly.
- If the call is correct, the bearer receives \$ 2,000.
- If the call is incorrect, the instrument becomes worthless.







**Is the instrument worth something?**

**Do you have a risk in accepting the offer?**

**Assuming that you have accepted the offer and now own it, do you have a risk?**

**When did the opportunity change into a risk?**



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## ISO 31000:2018

Risk management -- Guidelines

## The new ISO 31000 keeps risk management simple

By Sandrine Tranchard on 15 February 2018

“Risk is now defined as the “effect of uncertainty on objectives”, which focuses on the effect of incomplete knowledge of events or circumstances on an organization’s decision making. This requires a change in the traditional understanding of risk, forcing organizations to tailor risk management to their needs and objectives – a key benefit of the standard. Jason Brown explains: “ISO 31000 provides a risk management framework that supports all activities, including decision making across all levels of the organization. The ISO 31000 framework and its processes should be integrated with management systems to ensure consistency and the effectiveness of management control across all areas of the organization.” This would include strategy and planning, organizational resilience, IT, corporate governance, HR, compliance, quality, health and safety, business continuity, crisis management and security.”

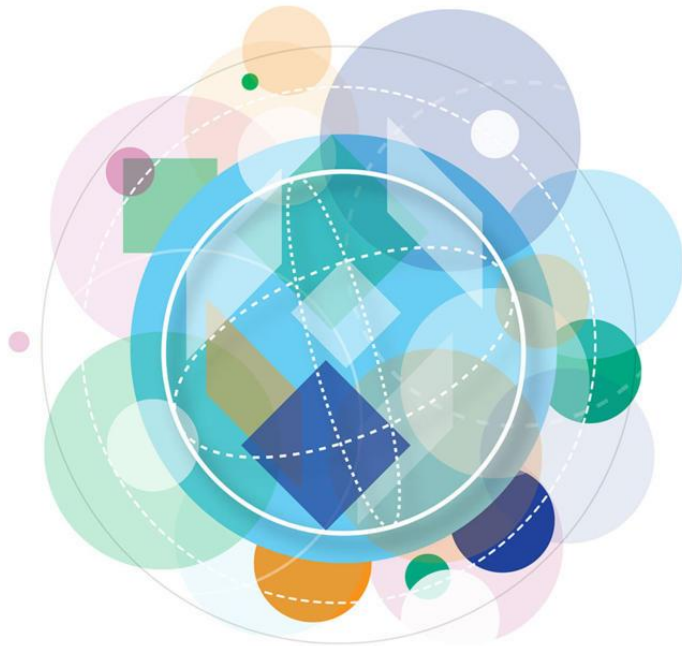


Committee of Sponsoring Organizations of the Treadway Commission

# Enterprise Risk Management

## Integrating with Strategy and Performance

### Executive Summary

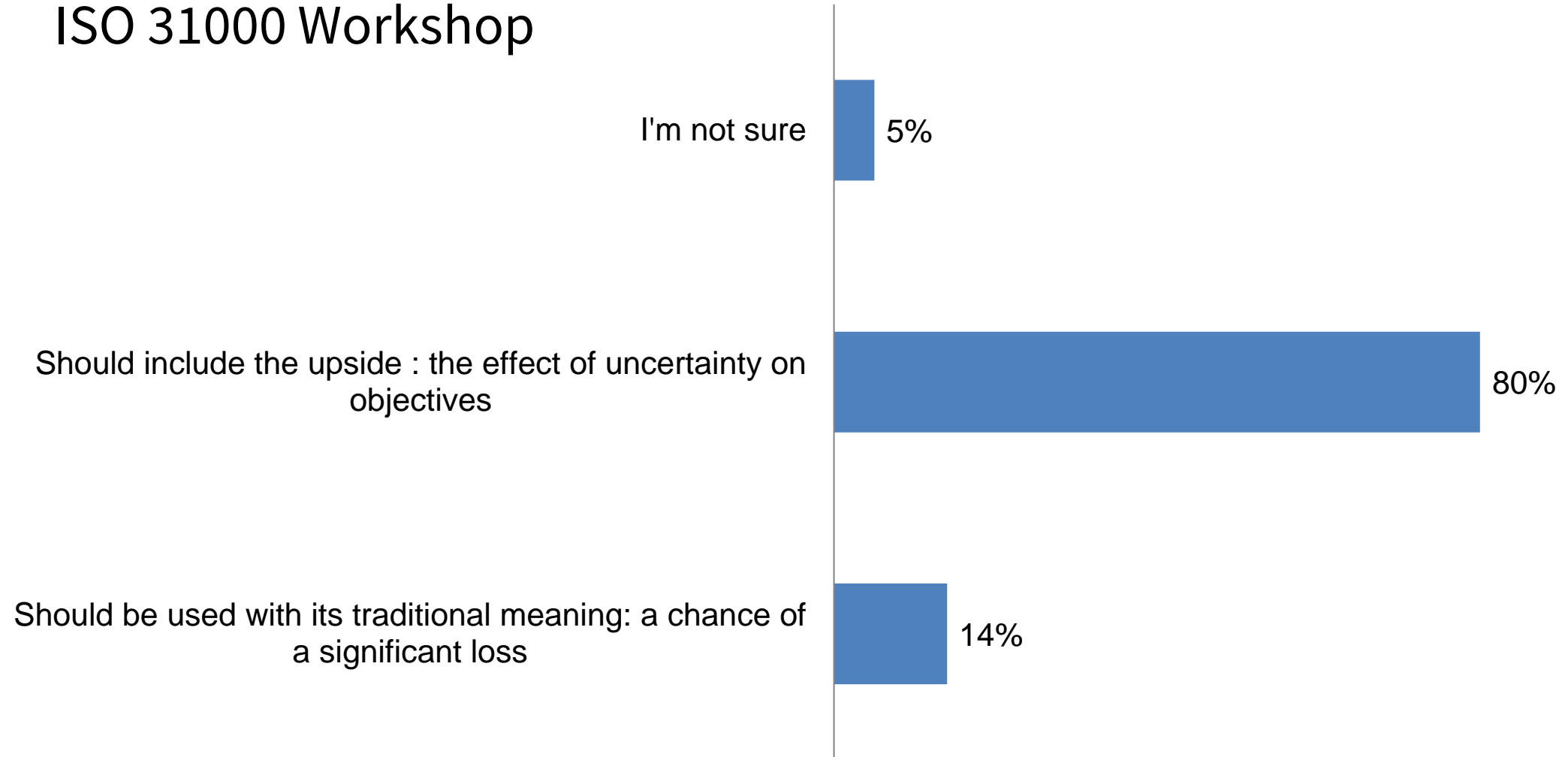


*“Our understanding of the nature of risk, the art and science of choice, lies at the core of our modern economy. Every choice we make in the pursuit of objectives has its risks. From day-to-day operational decisions to the fundamental trade-offs in the boardroom, dealing with risk in these choices is a part of decision-making.”*

June 2017

# The definition of the word risk ...

## ISO 31000 Workshop



# The word “risk” has a negative connotation and creates confusion.

- In the common understanding, it is taking a chance of a significant loss.
- Thus risk management is loss avoidance, not value creation.
- Most of us don't like to consider risk.
  - Unless we have to:
    - To avoid blame or liability
    - Compliance forces it
  - It is often linked to pessimism.
  - We are risk averse
- Trying to redefine risk as including the upside adds to the confusion.
- Facing risks or taking risks is often seen as a matter of courage rather than a quality decision.

We prefer to use the term **uncertainty** rather than risk. So, philosophically we are aligned with the ISO 31000 definition – but wouldn't attempt to change the common meaning of the word.

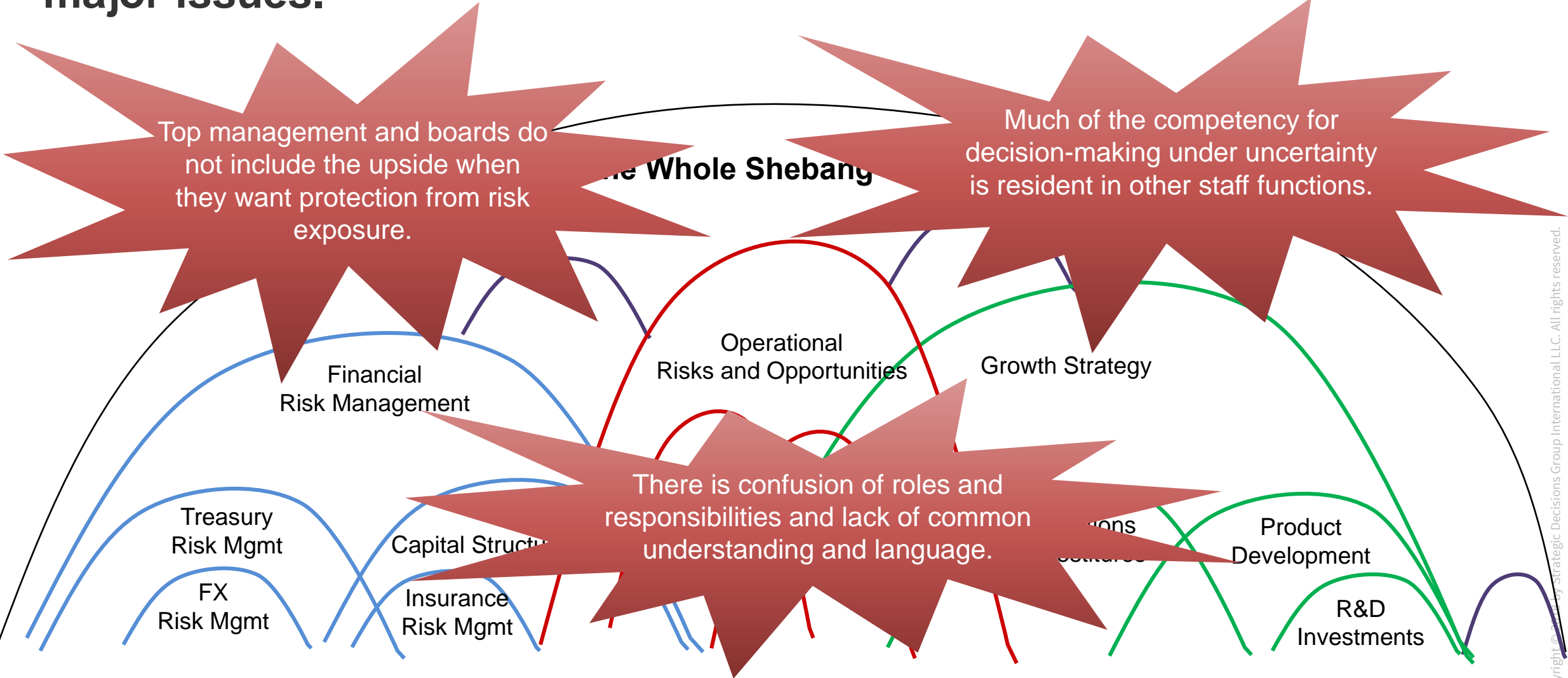


**When “risk” is defined as including the upside, we encompass all decision making under uncertainty – i.e., all decision making.**



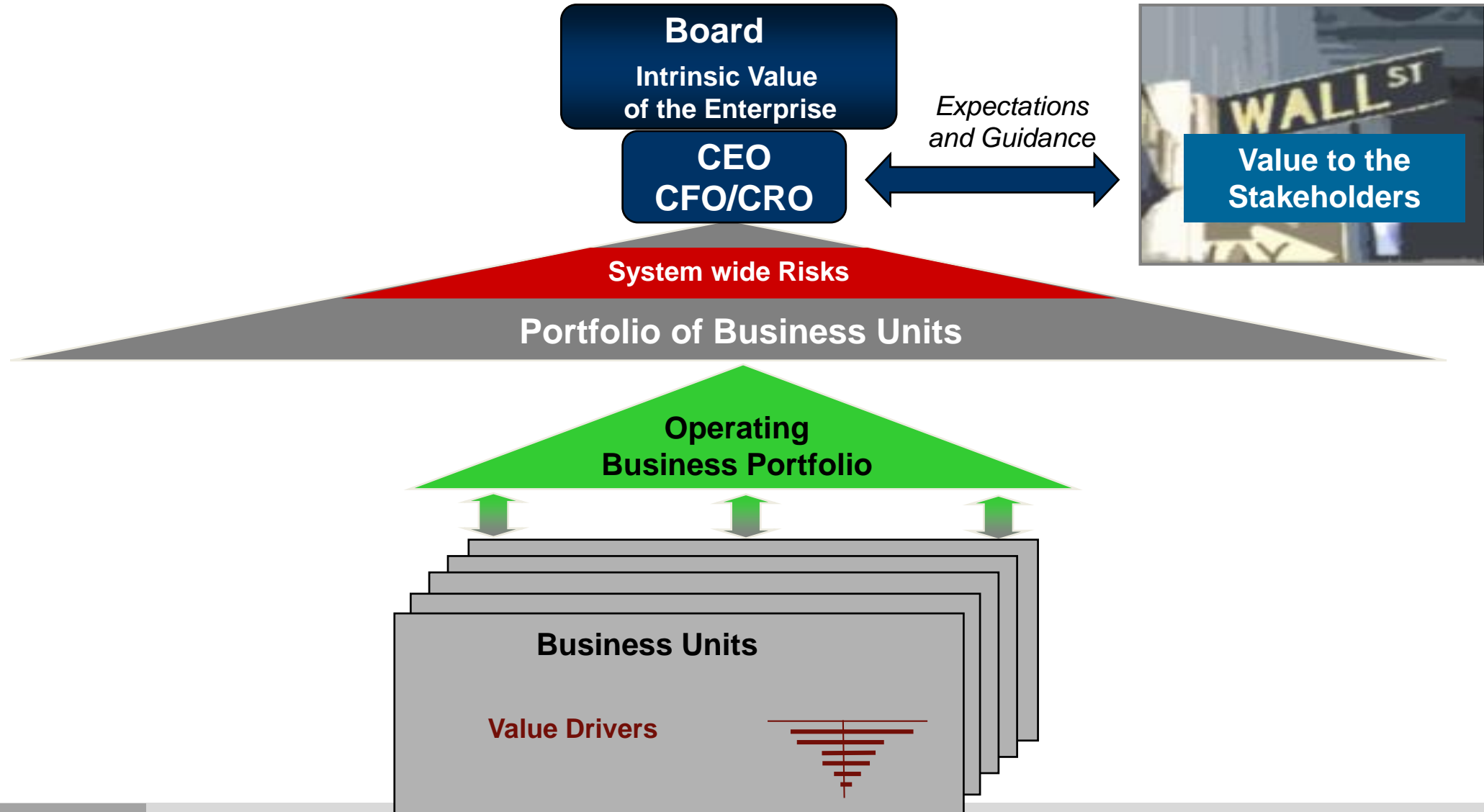
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# We believe this is the right way to think about risk, but it introduces major issues.

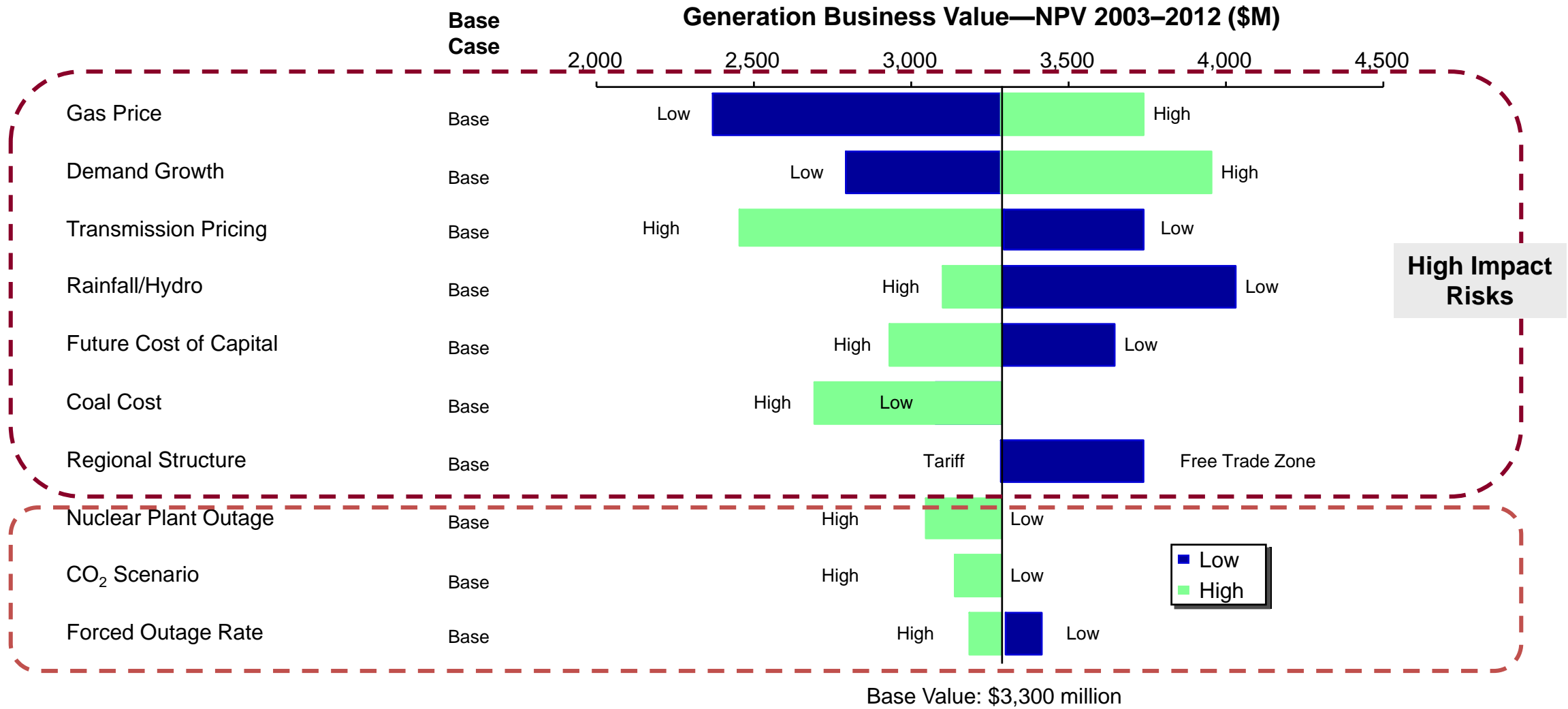


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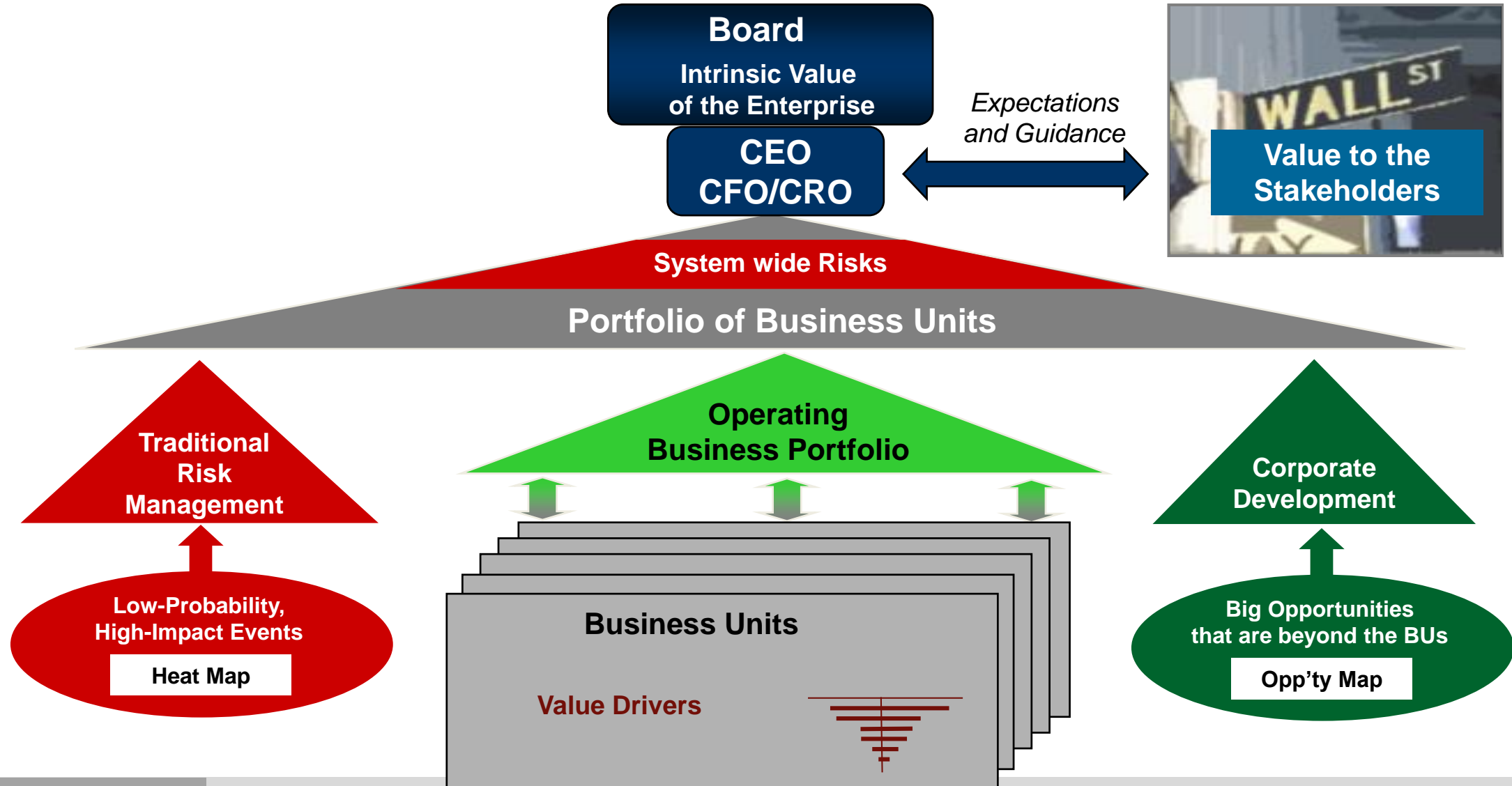
# With value-driven ERM, we take a top-down whole value perspective.



# Quantifying risk ensures that management focuses on those that have the greatest impact on value.

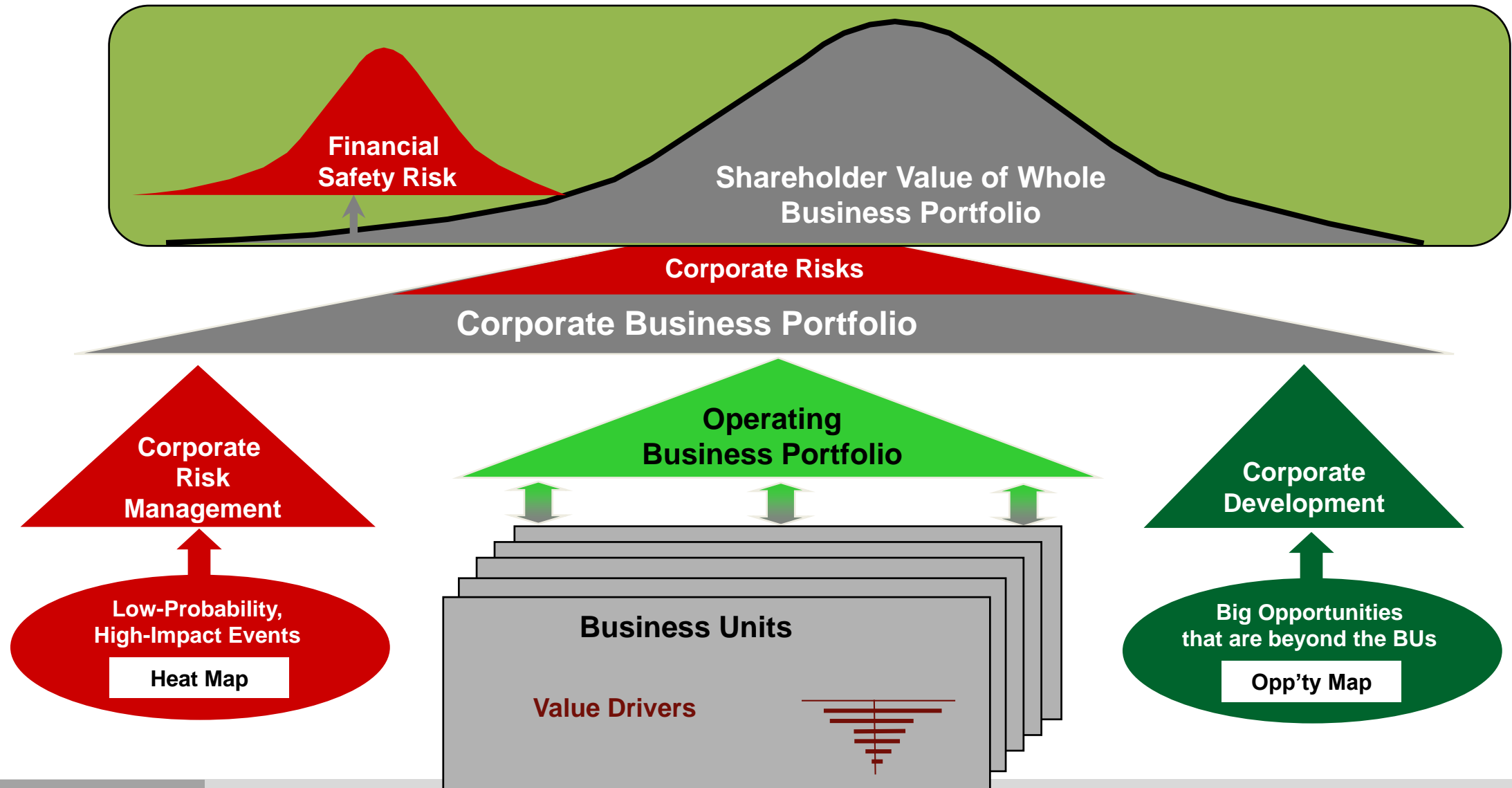


# With value-driven ERM, we take a top-down whole value perspective.

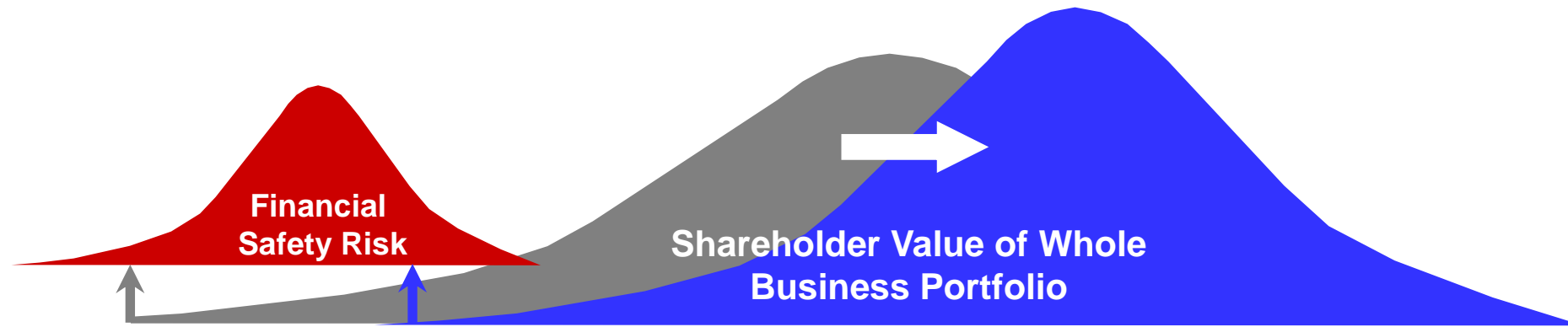




# The whole shebang rolls up into the uncertainty in enterprise-wide stakeholder value.

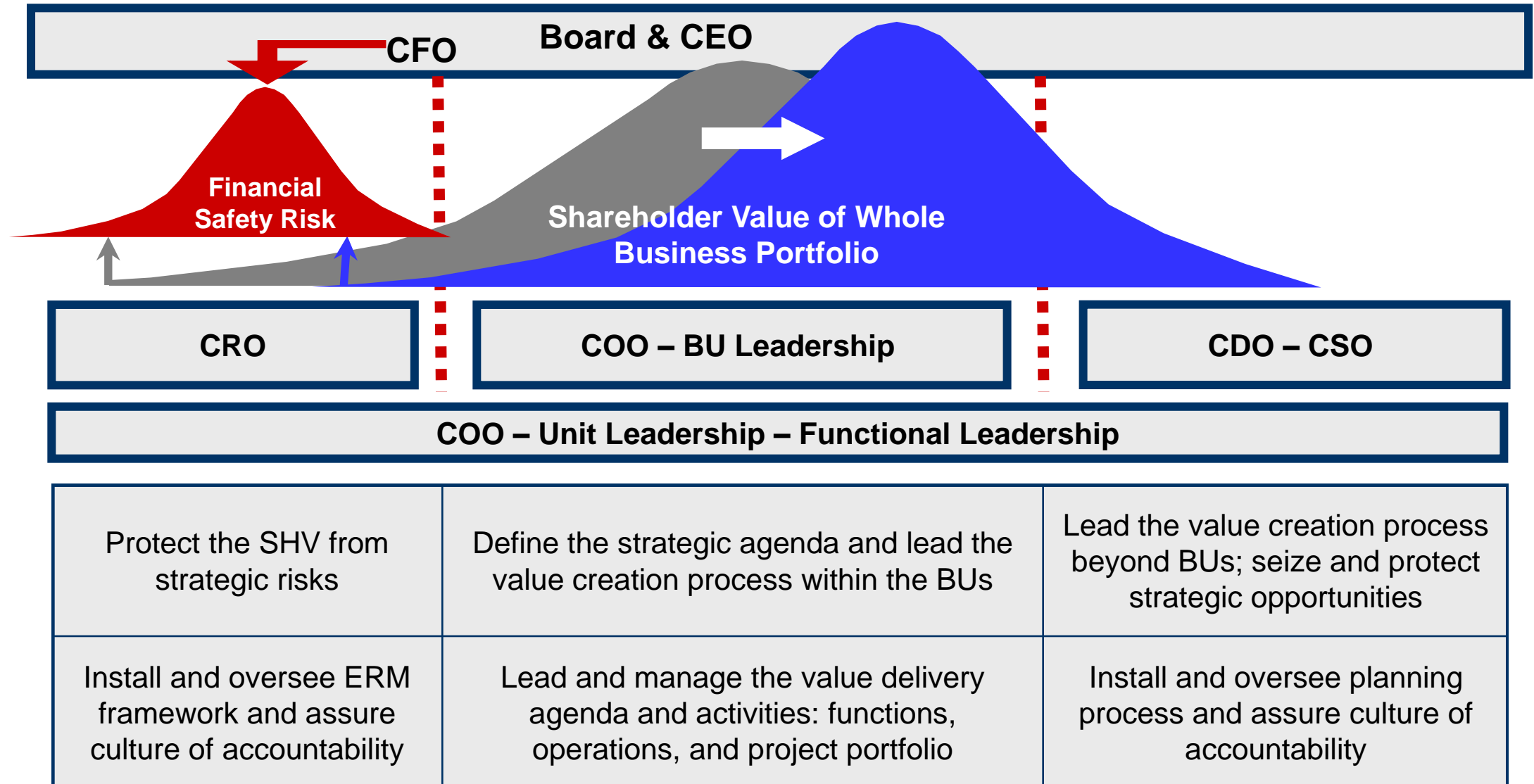


# The primary goal of the CEO and Board is to shift the uncertainty to the right and reduce it.



- This includes all the upside and the downside opportunities
- Individual risks and opportunities are incremental changes to the whole value distribution
- Uncertainty management requires managers in different functional roles to handle specific strategic and operational risks.

# Executives in different parts of the organization have varying roles in risk management.



# So how do we address the issues that arise? Here is SDG's recommendation:

Top management and boards do not include the upside when they want protection from risk exposure.

There is confusion of roles and responsibilities and lack of common understanding and language.

Much of the competency for decision-making under uncertainty is resident in other staff functions.

- Integrate DQ into the Governance Process
- Use the traditional language and meaning of risk and opportunity
- Call it uncertainty when we include the upside
- Understand the whole shebang
  
- Differentiate among the three basic roles:
  - Line – General Management of BUs
  - Upside leader
  - Downside protector
- Build a basic and broad understanding of decision-making under uncertainty
  
- Realize that decisions with uncertainty will arise from all sides
- Build critical mass in competency and capacity for decision support
  - It doesn't matter so much where the competency resides, as long as it can be called upon to tackle all of the major decisions
- Do the basics well – controls, compliance, and learning with effective look-backs

# What does the convergence of the two field mean for Decision Professionals?

- The fields are converging – let's accept that and understand that there are many more Risk Management Professionals than Decision Professionals – RIMS, PRMIA, etc.
- Decision Professionals have the core competence that is required for the new generation of ERM. Many risk managers have the capability to develop the skills of Decision Professionals.
- The language and perspectives are different and require alignment
- The history and traditions of the two fields are quite different

As a Decision Professional, what is your current role in the ERM framework that has been adopted by your enterprise?

- A. No connection or I know little about our ERM implementation
- B. They see us as a resource for risk quantification
- C. We are at the center of the ERM activities in our enterprise

