

Risk Management Without Matrices



Let a conversation, not a process, guide how you manage risk

Something I love about the science and art of risk management is the variety of concepts and tools that can be applied to help us understand and shape uncertainty. One thing I don't like is how readily good concepts and thinking tools are converted into doctrine and dogma. Give someone enough process and they'll never need to think for themselves again...

Structure has its purpose. It helps us be consistent, defensible and aids the teaching process. But it can also go too far and risk management stops being an exercise in structured thinking and becomes one in following process steps, looking up tables and matrices, and filling in forms.

With enough diagrams and tables, a risk assessment can practically complete itself. Trouble is, the output is usually the same old predictable rubbish that is one cause of the cynicism with which many people view risk management. This is compounded when some of the process steps, such as comparing values of likelihood and consequence on a coloured-square matrix, are of highly dubious merit. Often it is the stereotypical risk management process that drives people to self-harm rather than wanting to participate in the dreaded 'risk management workshop'.¹

Think of training wheels on a bicycle. They have their purpose, but how enthusiastic would you be to go on a long road ride or race in the Olympics if you were forced to never stop using them?

A streamlined approach

This article summarises an approach that deemphasises the classical risk management process and outlines a real risk conversation. It isn't rocket science or relevant in every environment. There is never a single right way to identify, assess and manage risk. Anyone who says they have "the right way to do it" needs to get out more or drop their ego a

¹ Refer to my article "*Please... Kill... Me... I have to go to a risk workshop*".

notch. I offer this as a method that has value in the right circumstances and one that I've seen take organisations from risk management dread to having really impactful discussions.

It requires a conversation in two parts, within each questions are discussed and answered. The important word here is **conversation** – a group of people actually sharing their views, experience and opinions, not poring over pages of often generic and artless tables and matrices.

Risk management without matrices	
Identifying our risks <ol style="list-style-type: none">1. Why are we here? What are we looking at risk to?2. Who are the people who matter in what we are doing?3. What does success look like to us and them?4. Where are there uncertainties in our ability to achieve those measures of success?	Assessing our risks <ol style="list-style-type: none">1. What are the potential consequences of each risk? Upside and downside.2. Why is it a real risk? What's causing it?3. What is being done now to manage it? How effective are they?4. How concerning is this risk and are we comfortable with it?5. What are we going to do about it?

© 2020 Crafted Solutions Pty Ltd

Identifying our risks

Never start a risk conversation by asking “what could go wrong?”. This inevitably leads to a long list of anxieties, each likely representing today's problem or yesterday's big failing. Start with “what must go right to the people who matter (not just us)?”. For me, identifying the top risks in any circumstance requires four questions – why, who, what and where?

1. **Why?** Why are we having this conversation, what are we looking at risk to? Do we all have a shared view of the boundaries, scope and context of the thing we are about to discuss?
2. **Who?** Who are the people and organisations who matter in what we are doing? One of the great failings in risk management is solely managing risk to us, not the people with whom we share the risk.
3. **What?** What does success look like to us and them? What are our objectives and the objectives of the people who are (or will be) important? Conflicting objectives are almost always a source of risk.
4. **Where?** Where are there uncertainties in our ability to achieve those measures of success? What are the potential future events that make our ability to be successful uncertain?

The outcome of risk identification is a manageable number² of potential risk events. Don't debate cause/consequence or level (is this one risk or two separate ones?) too much at this point, that will come out in the assessment stage and you will likely circle back to your risk list and amend it several times.

Assessing our risks

Once we identify our risks, we need to decide what we want to do about them. (the 'what we want to do about them' is the critical bit of this whole process, everything else leads up to this! It's the end to the means). To achieve this, I discuss five questions:

1. **What are the possible consequences?** Which of the objectives or measures of success (identified earlier) are uncertain because of this risk? What's the prize we stand to lose by accepting or rejecting this risk? Consequences can be positive or negative. **Why is this important?** This ensures we understand the risk in the context of objectives. No risk should be accepted or rejected without understanding the potential pain versus potential gain. What are the potential downsides of the risk vs the objectives we hope to achieve?
2. **Why is this a real risk?** What factors, causes, sources, conditions cause this risk to exist, make it as severe as it is, or could trigger it? What do we know, assume, or not know, about the risk that concerned us in the first place? **Why is this important?** These are the things that we need to monitor or manage to reduce the chance of the risk occurring or its potential consequences. It also helps us link our risks by understanding common causes or potential triggers.
3. **What is being done now to manage it and how effective are these controls today?** What preventative, detective or mitigative controls or actions are in place today? This should be a solid and prioritised list of tangible things, with as little padding and 'aspirational good intentions' as possible. Controls are not effective simply because the risk hasn't been realised yet. Controls should be well-defined, resilient, sustainable, timely, assured and holistic. **Why is this important?** Controls are the one thing that make risk management real – everything else is a useful discussion. They are the tangible and real things that we and others are doing to manage the risk. The huge majority of risk realisations in practice are caused by over confidence in ineffective controls. Lists of things we claim or hope to be doing that in practice provide no protection are not controls, they are placebos.³
4. **How concerning is the risk today?** Too many traditional approaches view risk severity as being solely the combination of likelihood and consequence. This leads to simplistic assessments that use tables of likelihood and consequence that are unhelpful at best, and usually land in some middle-ground position on a matrix of

² There is never any single 'right' number of risks, but I suggest one in my article "*You've got a risk register? Mind if I have a look?*".

³ Refer to my article "*Don't worry, we've got that under control...*" for more tips on ensuring your controls are truly effective.

coloured squares. Consequence and likelihood are relevant, but there are other factors that determine how concerned we should be about a given risk and what we need to do about it. Talk through the following:

- a. **How severe are the potential consequences?** Would this be devastating or annoying? Rather than referring to often irrelevant word-pictures in a consequence table get people to paint a picture of how severely the consequences we identified could affect what's important to the people who matter.
- b. **How likely is the risk?** Do you think its only a matter of time, or would you fall off your chair if it actually occurred? People are hopeless at estimating the likelihood of anything outside their day-to-day experience.⁴ Look at the potential causes we identified – how likely are these to trigger or allow the risk to occur?
- c. **How well do we understand the risk?** How solid and trustworthy is our analysis? If we don't know lots of stuff about this risk, we should be more worried than if we have good data. Is the risk complex and difficult to understand?
- d. **How quickly could the risk change or be realised?** How close is the risk, how much time do we have to prepare for it? Will we have any warning?
- e. **How interconnected is this risk?** If this risk occurs, what other risks might it trigger? What common causes might lead to this risk being realised simultaneously with several others?
- f. **If we don't take the risk, what might we miss out on?** Is the prize worth the potential pain? Are alternative pathways available?
- g. **Can we afford to better manage this risk?** How much is managing the risk costing? Is it proportionate and are there any further treatment options that are both sensible and affordable?

The outcome of this conversation is an agreed level of comfort or otherwise. Considered in context, if this risk were realised one day how would I feel looking back at how it was being managed?

5. **What are we going to do about it?** Rather than just accepting that high risk is bad and low risk is good, every risk deserves its own treatment strategy. Discuss the objectives in play, how concerning the risk is, what we are doing now and what options are open to us. Although we don't need to arbitrarily limit ourselves to just one, four main treatment strategies are available:
 - a. **Keep calm and carry on.** All things considered, we just need to sit on this risk, actively monitor it, and keep doing what we are doing. The risk might

⁴ Refer to my article "*Likelihood – Risk Management's Favourite Get out of Jail Free Card*"

still occur, but we are comfortable that we can wear any potential negative outcome and that doing more to manage this risk is too difficult or expensive. We need to keep critical controls in place and ensure the right people are aware that a level of risk is being accepted.

- b. **Chill.** We are overcontrolling this risk today. Current controls are too expensive or causing negative effects in their own right. Get rid of unnecessary, unhelpful or duplicative controls. Let your hair down and live a little.
- c. **Buy, borrow or hire a bigger stick.** We aren't on top of this risk yet. The potential downside of this risk is scary, and there are new things we need to do. Look for control gaps against causes or consequences and agree proportionate new treatments (be aware of their potential unintended consequences).
- d. **Walk away to live another day.** This risk is scary and there isn't anything much we can sensibly do to improve it. Is the potential prize we get for accepting this risk really worth it? If not, maybe we need to exit the game?

Summary

Horses for courses. Some situations need lots of process, but this can so easily become the end not the means. In many circumstances, having the conversation summarised above with a good facilitator provides the information you need to manage many risks in practice. It seeks to balance endless analysis-paralysis with the opposite extreme of just spit-balling anxieties up against the wall.

The conversation starts at the start – who's important, what matters to them, and where are there uncertainties in being able to achieve this?

It ends where you really want to end – what's our strategy for managing this thing? What are we going to actually do in practice to ensure that we, and the people who matter to us, are successful?

Finally, the conversation should lead to everyone in the room walking away with a better understanding than they started with and hopefully even more questions.

First published 8 October 2020. This version v1.1 published 2 June 2021

Sal Sidoti has over 30 years' experience working with public and private sector organisations across Australia and further afield. He works with his clients providing tailored risk management advisory services that support decision making in practice. Approaches that go beyond cut-and-paste compliance and death by spreadsheet. Sal is the Director and Principal Consultant of Crafted Solutions Pty Ltd. He is home based near Canberra, Australia.

*<https://au.linkedin.com/in/sjsidoti>
enquiries@craftedsolutions.com.au*

Title illustration courtesy of Karim Manjra via Unsplash