

ARPI Issues a Warning on the Limitations of ‘Risk Management’

In light of continuing failures of ‘risk management’ in Australia and around the world, some with significant consequences, ARPI today warns Governments, corporates, regulators and shareholders that they must not continue to rely on traditional risk management processes.

A common theme across these failures is that traditional risk management failed to provide decision-makers with ‘the right information on the right issue at the right time’ – and stakeholders are losing patience with the same excuse that ‘we didn’t know’ – followed by a defence of ‘plausible deniability.’ Information is available and accessible if the right approach is taken. But new thinking is required. Australian regulators have clearly put Boards and Executives on notice.

Fundamentally, traditional risk management is limited in today’s world – at best it comes up short on both ‘approach and information’ towards enabling ‘best’ decision-making. The frameworks within which traditional risk management operates create constraints that hinder appropriate and timely decision making.

A few specific examples of the limitations of risk management are illustrative of this:

Risk management:

- has not kept pace with the environment in which it operates;
- lives in ‘silos’ and is void of ‘network-centric’ thinking required today;
- remains ‘reactive’ – commencing only after a risk has been identified;
- relies on receiving ‘intelligence’ to manage risks;
- believes all risks are linear and behave rationally – a ‘mechanistic’ approach;
- fails to recognise sudden changes to the external environment;
- standard risk equation of likelihood v consequence must no longer be automatically applied because some consequences today are unthinkable, hence every entity must have a Risk Policy to define when consequence should dominate the equation;
- fails to cope with High Consequence ⇔ Low Likelihood situations;
- fails to distinguish ‘Systemic’ risks (which can be precursors to Wicked Problems);
- has a poor record of quantifying and qualifying consequences;
- can be adversely affected by internal financial considerations; and
- fails to handle ambiguity.

ARPI offers a fresh approach – ‘Strategic Risk Policy’ – which redefines risk as firstly, the impact of decisions or non-decisions and secondly, the impact on networks: in place of the traditional ‘uncertainty’ definition. It introduces pre-emptive approaches and frames around ‘exposure and vulnerability’ to empower leaders and decision-makers – and also reduce risks.

Strategic Risk Policy has been called the new ‘front-door’ to risk. Our message is that paradigm change is required by leaders to adopt new thinking and new approaches. Strategic Risk Policy is Risk 4.0.

ARPI is establishing a global network of affiliated Risk Policy Institutes and Special Purpose Groups and is directly influencing thinking on major global issues such as social media regulation, cryptocurrency, security and resilience. Further details are at www.arpi.org.au