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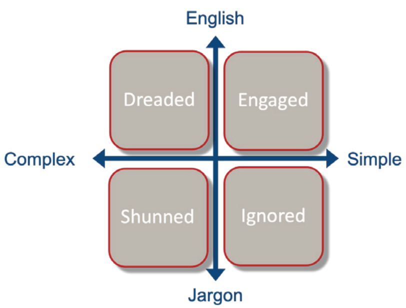
RISK FRAMEWORK DESIGN

Elegant Design of your Risk Framework

Let's face it, elegant and risk or elegant and framework don't sound like they should be used in the same sentence, right? That doesn't mean your risk framework needs to be overly complicated and full of risk jargon when the audience ultimately are non-risk professionals who you are helping to be more successful through the management of uncertainty.

Too often I see risk frameworks that are focused on "best practice" rather than on what will work for your business. This results in a framework designed for risk practitioners not for the end-user. We end up doing business with ourselves!



This is what happened at CBA according to the APRA report into the bank's culture.

"The risk function was also described as focusing on policy writing and correctness of frameworks over implementation and engagement with the business."
I assure you they are not alone.

The result is that the business is disengaged or even worse, the risk function is shunned and actually avoided.

Elegant Frameworks: Another Bigger is not Better

When I run the RMIA's Enterprise Risk Management training which covers framework design and implementation, I ask participants to hold up their hand if they have a framework that is more than a couple of pages. I ask them to keep their hand up if it's more than 10 pages, 20, 50 and I keep going if needs be. Until recently the winner had a framework that was over 200 pages (albeit across multiple

documents). Now I have a new winner. Over 500 pages. I kid you not. No wonder they attended the course to get some help.
A great, not elegant, risk framework achieves your desired goals in the least amount of words possible. It should be able to be overviewed and comprehended by a leader in 15 minutes.

Does yours? If not, here is a tip.
Break it up.

I break up risk frameworks into Policy, Appetite, Guideline and Procedure. The policy gives the "why" and sets the direction the organisation needs to head. Appetite sets the boundaries for "where" we can play. The guideline contains the "what" it all entails and acts like a roadmap for the integration of risk into business-as-usual. And the procedure provides the "how", the instructions for risk assessment and escalation as required.

What this means is that a leader does not open a hefty document to start. They have bite size chunks in the policy, appetite and guideline documents, with the detail in the procedure which they won't immediately need to worry about. The result is the crux of the framework is read and understood. In less than 15 minutes.

How many pages all up I hear you ask. It could be as little as 10 or many more. It depends. It depends on the culture of your organisation. Organisations with more command and control or with more technicians tend to be more prescriptive. While more entrepreneurial organisations will allow much more leeway with how the end result of managing risk is achieved.
It also depends on how well you are able to embed the management of risk into business-as-usual. For example, if risk in procurement is handled well within the procurement framework, your risk framework does not need to deal with it. It just needs to reference it.

It's What we Do

A key goal for the design of any organisational framework should be to integrate it into business-as-usual. So that it is simply "how things are done around here". Especially for a risk framework.

Risk management, not risk taking, still suffers from an abundance of misperception of it being a compliance activity. Something that has to be done as an extra and not really related to "real work".

My number one tip for integrating risk into business-as-usual is to integrate performance and risk reporting. Such that, a leader reports on their performance and the risk to future performance, all in one breath so to speak.

Too often I see risk reporting only occurring because the risk team made contact. What follows is delays in getting information back, followed by postponement of the meetings in which risk was to be discussed. By the time the discussion is had, everything is pretty much old news and of little value.

Still, at least they can say we "ticked the box" on that one!

Risk as an Enabler

Last but by no means least, the style and tone of your risk framework should be risk as an enabler of success. Not an industry of its own. In the policy for example, make sure you link the principles of risk management with your organisation's core values. In the appetite statement, make sure you are relating it to strategic objectives rather than categories of risk. And for the guideline, do your best to show risk supporting key functions. Use existing diagrams that show organisational dynamics and where risk management fits in. In particular, when it comes to performance reporting.

Follow these tips and you will find staff across your organisation more engaged and increasingly enthusiastic about managing risk for success. And most of them won't even know they are doing risk management. It will simply be the way things are done around here!

Bryan Whitefield

Bryan Whitefield is a management consultant operating since 2001, specialising in risk-based decision making and influencing decision makers, born from his more than twenty years of facilitating executive and board workshops. Bryan's experience as a risk practitioner includes the design and implementation of risk management programs for more than 150 organisations across the public, private and not-for-profit sectors. Bryan is the author of DECIDE: How to Manage the Risk in Your Decision Making, Persuasive Advising: How to Turn Red Tape into Blue Ribbon; and Risky Business: How Successful Organisations Embrace Uncertainty (Amazon Best Seller). Bryan was President and Chair of the RMIA from 2013 – 2015. He is licenced by the RMIA as a Certified Chief Risk Officer (CCRO) and is the designer and facilitator of their flagship Enterprise Risk Course since 2019.