

# Delivering Strategic Advantage through Integrated Risk Management

David Hillson



## Delivering strategic advantage through integrated risk management



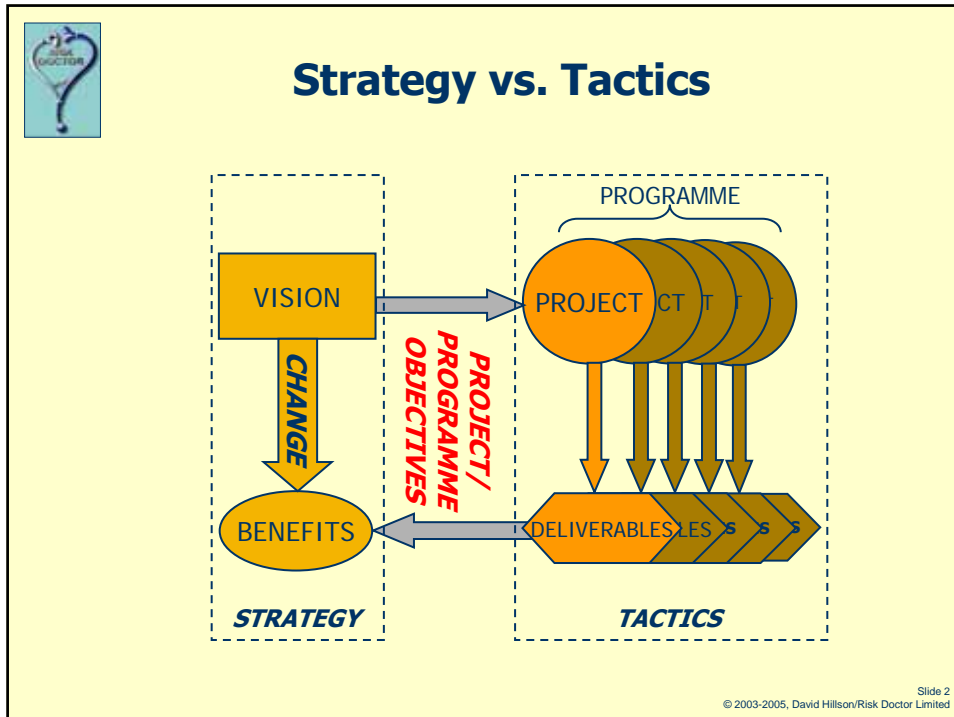
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## Business environment

- ▶ Characterised by **uncertainty**
  - ▶ Multiple sources
    - ▶ Technical
    - ▶ Management
    - ▶ Commercial
    - ▶ External
    - ▶ etc...
  - ▶ Reflect in RBS
- ▶ Deliberate risk-taking
  - ▶ Balancing Risk/Reward
  - ▶ "Zero risk" not possible/desirable

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## Uncertainty and risk

**Risk  $\neq$  Uncertainty**

**True or False?**

**Risk = Uncertainty that matters**  
(i.e. can affect *objectives*)

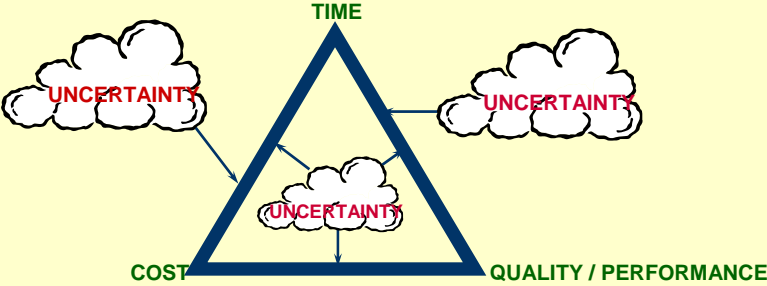
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## Uncertainty and risk

▶ All enterprises contain risk, arising from interactions between

- **objectives** ...
  - what **must** happen
- **uncertainty** ...
  - what **might** happen



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## Two-dimensional definition

Risk is :

“An **uncertain** event or set of circumstances that, should it occur, will have an **effect** on the achievement of **objectives**”

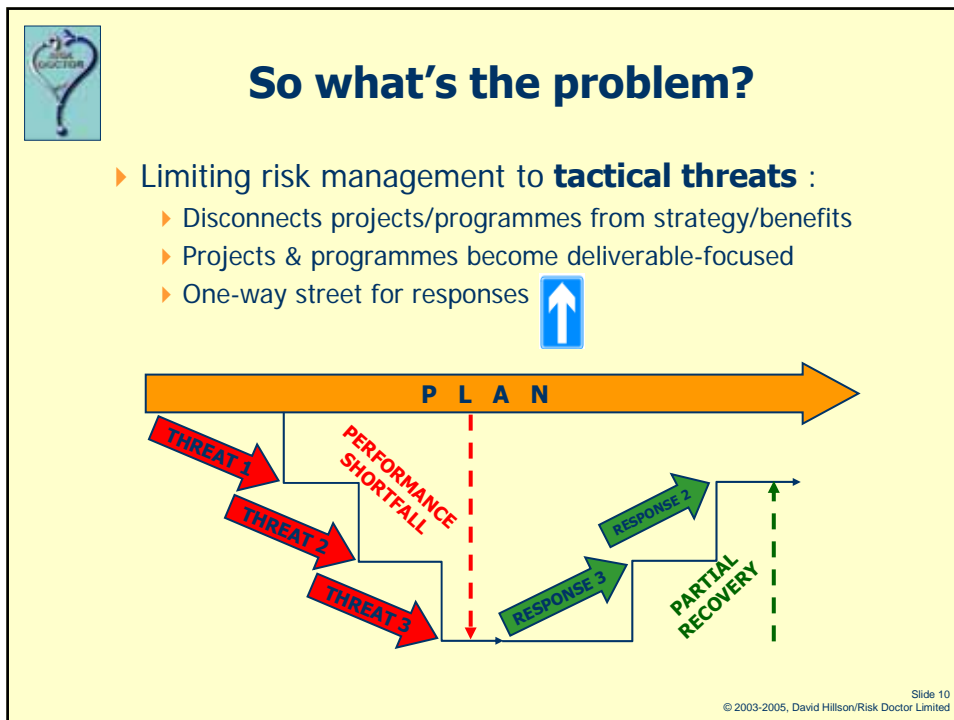
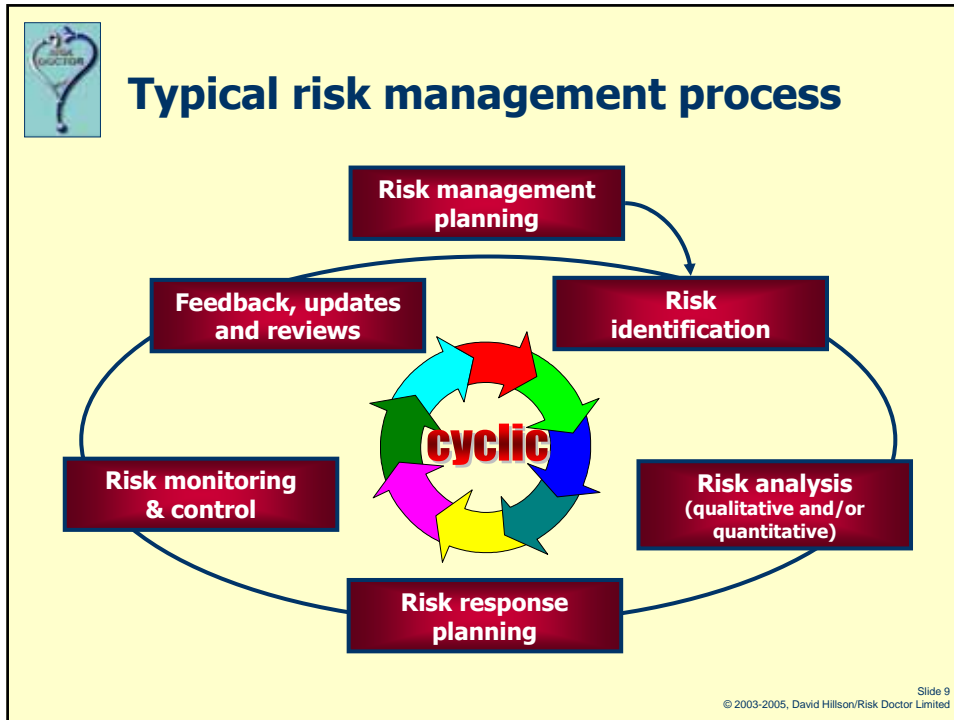
(APM PRAM Guide)

**Risk** connects **uncertainty** with **objectives**

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## Two-part solution

Risk management deals with **tactical threats**

Broaden scope to include **strategy** and **opportunities**

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The diagram illustrates a two-part solution. The top part states that risk management deals with tactical threats. The bottom part states that the scope should be broadened to include strategy and opportunities. Yellow ovals highlight the words 'tactical threats' and 'strategy and opportunities'. Two yellow lines connect the ovals around 'tactical' and 'opportunities'.



## Strategic risk management

- ▶ Same process
  - ▶ Plan, identify, analyse, respond, monitor, update ...
- ▶ Different objectives
  - ▶ Business case, benefits, corporate, stakeholders ...
- ▶ Different roles & responsibilities
  - ▶ Process owner, risk owners, reporting ...
- ▶ Key : strategic/tactical relationship
  - ▶ Ensure 2-way link



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The diagram shows a triangle with 'STRATEGIC' at the top and 'TACTICAL' at the bottom. Two vertical arrows, one pointing up and one pointing down, are in the center of the triangle, representing a two-way link between strategic and tactical levels.





## Strategic/tactical

- ▶ Requirements for effective strategy/tactical link :
  - ▶ Shared language, definitions ...
  - ▶ Common process, formats ...
  - ▶ Supportive culture, risk-aware ...
  - ▶ Committed people, competent & professional
- ▶ A "risk-mature" organisation



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## Including opportunities

Risk has two dimensions :

1. **uncertainty**
2. **effect on objectives**



"probability"

"impact"



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## Defining opportunities

“Risk is any **uncertain event or condition** that if it occurs has a **positive or negative effect on one or more objectives.**”

(PMI PMBoK)

- ▶ Uncertainty estimated as “probability”
- ▶ “Impact” assessed against objectives
  - ▶ But what kind of impact?
  - ▶ Could be either **positive** or **negative**
  - ▶ **Opportunities** as well as **threats**



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## Managing opportunities

- ▶ Same process
  - ▶ Plan, identify, analyse, respond, monitor, update ...
- ▶ Different impact types
  - ▶ Reduced time/cost, increased benefits ...
- ▶ Different response strategies
  - ▶ Exploit, share, enhance ...
- ▶ Key : threat/opportunity relationship
  - ▶ Opportunity is absence of threat
  - ▶ Opportunity is inverse of threat
  - ▶ Opportunity is different from threat
    - ▶ “Pure opportunities”

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## Key recommendation

- ▶ Risk management is an effective bridge if :
  - ▶ Addresses strategic risks as well as tactical
  - ▶ Provides links between levels
  - ▶ Proactively manages opportunities as well as threats



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## Integrated risk management

- ▶ Addressing both strategic & tactical risks
  - ▶ Including project, programme, business ...
- ▶ Covering both threats & opportunities
- ▶ Proven techniques (with minor mods) :
  - ▶ **Risk id** : brainstorm, SWOT, checklist, interviews, assumptions/constraints analysis ...
  - ▶ **Risk assessment** : Risk Register, [double] P-I Matrix, RBS, Monte Carlo, decision tree ...
  - ▶ **Risk responses** : avoid/exploit, transfer/share, reduce/enhance, accept

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## Benefits of integrated approach

- ▶ Bridges the strategy/tactics gap
- ▶ Focuses projects & programmes on benefits
- ▶ Allows proactive opportunity management
- ▶ Supports decision-making when uncertain
- ▶ Creates space to manage uncertainty
- ▶ Minimises threats & maximises opportunities
- ▶ Allows intelligent risk-taking
- ▶ Develops risk-mature culture

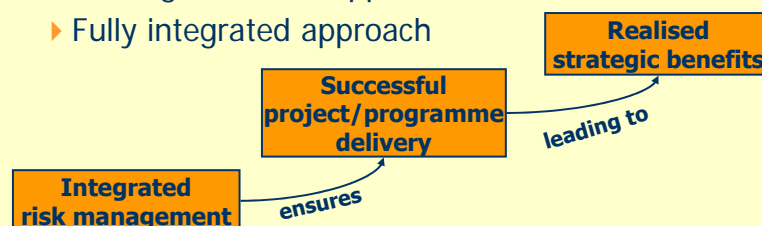


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## Summary

- ▶ Strategy & tactics connected via objectives
- ▶ Objectives affected by uncertainty = risk
- ▶ Integrated risk management creates strategic advantage *if* scope is broader than just tactical threats :
  - ▶ Covering both strategic & tactical risks
  - ▶ Dealing with both opportunities & threats
  - ▶ Fully integrated approach



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***Thank you***

***Any questions?***

For more information or queries, contact  
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**Full paper available at**  
**[www.risk-doctor.com/pdf-files/gsa0603.pdf](http://www.risk-doctor.com/pdf-files/gsa0603.pdf)**

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