HOW TO ENABLE THE IDENTIFICATION OF POSITIVE OUTCOMES ON A RISK WORKSHOP

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1. Background

During a risk management seminar, one of the participants asked the following question: "…Why is it too difficult to identify relevant events and scenarios representing positive risks? Why do many of the risk registers include a high number of negative outcomes, but only a few registers -if any- recognize positive scenarios? In what way can a risk manager contribute to the organization's focus on the upside risks?

2. Justifying the identification of positive risks- Possible Approaches

The risk manager is not only responsible for the development of risk maps and registers but also for the development, implementation and assessment of risk culture across the organization. According to Ferma's European Risk Manager Report 2020, which summarizes the responses from 764 respondents in 34 countries, 77 % of respondents are responsible for the development of the risk culture.[1] To ensure adequate attention to opportunities is an element while developing the risk culture in an organization.

To my opinion, the risk manager can employ three approaches to ensure such focus, one by one, or in combination with each other. The choice of approach will be affected by the organization's capabilities, culture, and risk maturity:

A) <u>The structure-oriented approach</u>

The risk definitions embedded in the well -known risk management standards and frameworks include positive risks:

- ISO 31000: 2018 defines risks as the effect of uncertainty on business objectives, which may be positive, negative or both.[2]
- In a similar way, COSO- ERM suggests that risk is the possibility that events will occur and affect the achievement of strategy and business objectives. Organizations commonly focus on those risks that may result in negative outcome....However, events can also have positive outcomes.[3]

- The risk definition in an earlier standard by FERMA sounds the same. Risk is the combination of the probability of an event and its consequences. In all types of undertaking, there is the potential for events and consequences that constitute opportunities for benefit (upside) or threats to success (downside).[4]

To establish formal structures, to define processes, to develop procedures in accordance with the requirements, guidelines and terminology employed by the well- known standards are top priority subjects in many organizations. Reference to definitions used in these standards may support the risk manager's efforts in putting the positive risks i.e. opportunities, on the table, during a risk assessment workshop.

B) <u>The goal-oriented approach</u>

In some organizations, the achievement of objectives has the sole priority. The focus is on identifying and assessing uncertainty which may affect the strategy and objectives. Objectives can't be achieved without giving due attention to opportunities which contribute to success. If goal-orientation is the dominant cultural element in an organization, the risk manager may benefit from a list of questions which may trigger focus on upside uncertainty during a workshop. Examples for such questions are the following:

- How can we *evaluate* changes which may substantially affect strategy and business objectives in a positive way, without identifying and assessing positive uncertainty?
- Didn't we ever deliver *better than expected* in terms of time, costs, and quality? What was the reason?
- Should we *limit our ambition* to monitor and handle negative events? What about benefiting from the opportunities?
- Is it possible to use *portfolio approach* to our investments, projects, asset portfolio without identifying and enabling the amplification of successful business plans? [5]
- Is it possible to motivate the *innovation* without considering opportunities?

C) <u>The mathematical approach</u>

Often, the risk identification workshops include members who have a basic knowledge of mathematics and statistics and can relate to the expected value concept. They do not need to be able calculate alphas or betas like an investment manager would be able to do. However, if the participant is familiar with to the expected value and the normal distribution, then she/he will understand the deviations from the expected value too, both in the positive and in the negative direction.

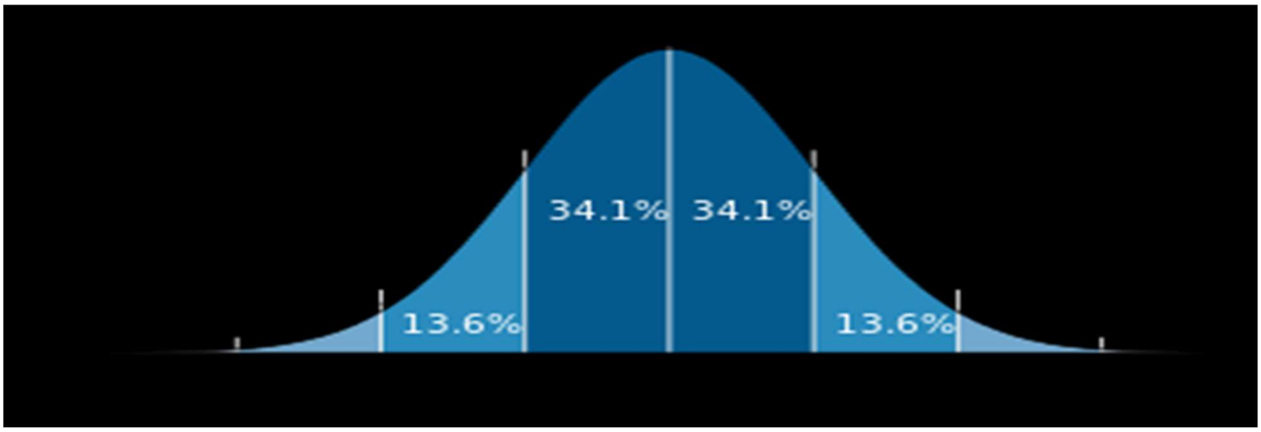

Figure 1: The normal distribution

3. Facilitating the workshop

When the risk manager aims to enable the identification of positive risks in a workshop the choice of method will be crucial.

To my opinion, choosing SWIFT (Structured What If Analysis) is beneficial. The structured what if analysis is similar to failure mode and effect analysis (FMEA) and is often used for identifying negative uncertainty/outcomes.[6] SWIFT is a brain-storming technique where the discussions are structured by the guidewords and parameters. However, there is no theoretical reason to limit the use of this technique only to the analysis of the negative outcomes.

When this technique is used to identify the negative risks attached to a system or to a process, the analysis starts with identifying the system- components/activities. Guidewords and parameters are used to describe “what might go wrong”.

When the possible positive outcomes will be identified through the use of the same technique, one can start with the objectives, define the structural parameters which may affect the achievement of objectives and facilitate the creative process by letting the participants combine these parameters with guidewords. In the following a possible example is presented:

SWIFT template for positive outcomes

Objective: Increasing the market share		
Guidewords	Parameters	Positive Outcome
Better then expected Best in class Holistic Competitive advantages	Customer satisfaction Cost-control Quality Motivation Deadlines	• Reduced customer complaints due to holistic quality control of the deliveries. • Increased sales due to better than expected deliveries than deadlines.

4. Conclusion

Through proper justification and discussion techniques, the risk manager will succeed to achieve focus on positive uncertainty and ensure that the organization identifies not only the possible negative outcomes but the also the positive ones.

(1) FERMA, The European Risk Manager Report 2020, p:11
(2) ISO 31000: 2018 p:1
(3) COSO, Enterprise Risk management, Integrating with Strategy and Performance 2017, side:9 2003 p:3
(4) FERMA, A Risk management standard
(5) Mark di Somma, The portfolio Approach to Startegy 2012, http://markdisomma.com/2012/06/01/the-portfolio-approach-to-strategy/
(6) Alan J.Card, James Ward, P.John Clarkson Beyond FMEA: the structured what-if technique (SWIFT) January 2012 https://www.researchgate.net/publication/224821158_Beyond_FMEA_the_structured_what-if_technique_SWIFT