Reshaping your comfort zone….
or how to embrace risk

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with Rebeka Pejkovik
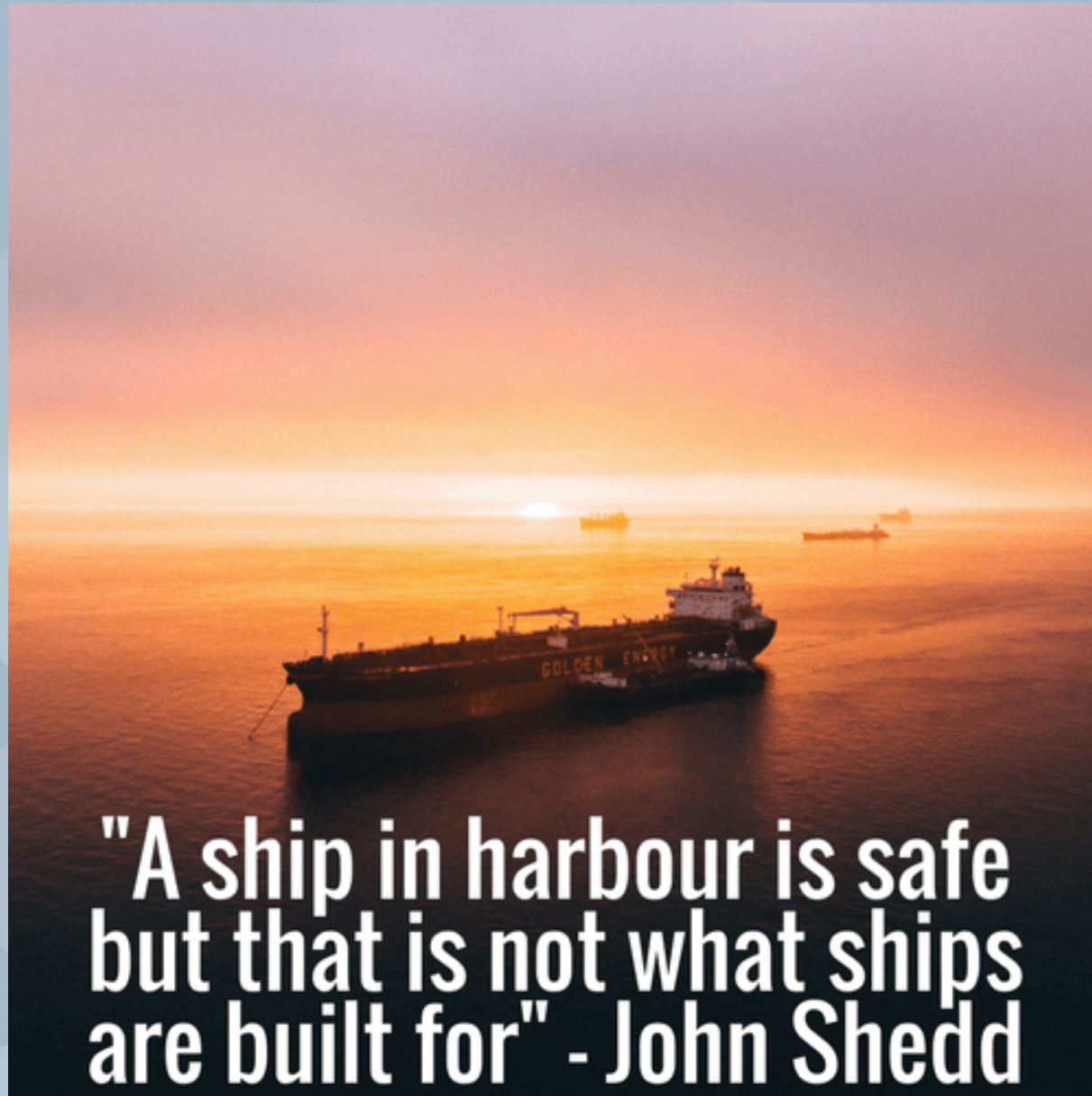
26 November 2020

Agenda

1. Why risk thinking
2. Ready to REACT: Agility and Risk
3. Strategy, Innovation, and Governance **+** Risk
4. Mechanics of risk management
5. Risk maturity in your BSO – it's a journey
6. Business continuity planning (template)
7. Q&A

"A ship in harbour is safe but that is not what ships are built for" - John Shedd
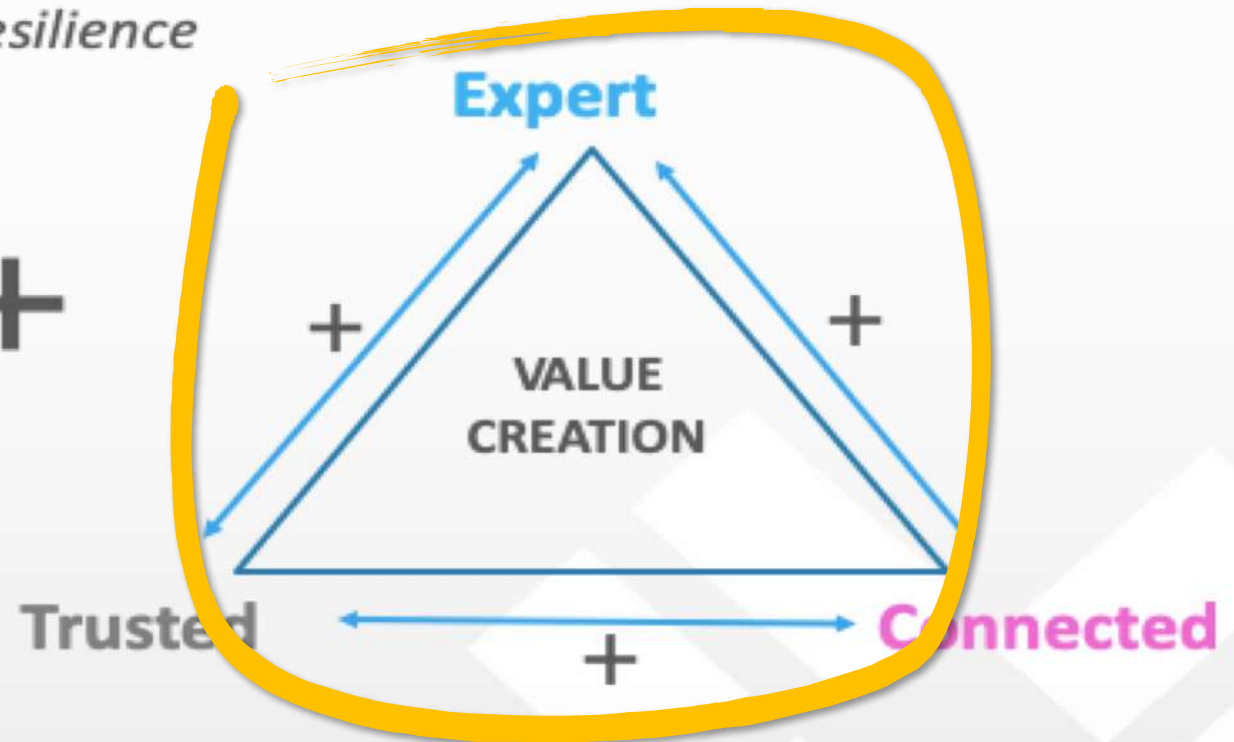
What is risk to you?

From fear to confidence

- Managing risk is mostly a state of mind, supported by processes and some common terms

- Risk is inherent to the mandate of BSOs, a strategic approach to risk can help innovate, diversify and manage detours

- The ability to manage risk can help BSOs to act more confidently on behalf of SMEs and deliver better results to stakeholders

- The risk of the unexpected can be reduced by the strengthening of some important "core muscles"

Dealing with the unexpected: resilience, responsiveness, recovery

REACT *ITC's model for BSO resilience and business recovery*

How well can your organization react to an external shock?

- READY: Do you have the behaviours, culture, risk approach, continuity plans and IT systems to keep going despite disruptions?

- EXPERT: Do you have access to the skills and information your stakeholders and businesses need to respond to new challenges?

- AGILE: Can you rapidly adapt your solutions and delivery channels to help businesses respond?

- CONNECTED: Can you communicate with business and can you work within an ecosystem of support to deliver solutions, fast?

- TRUSTED: Are you seen as a trusted source and delivery partner for information and solutions when uncertainty and risk is high?

(Strategy + Risk) + (Innovation + Risk) + (Governance + Risk)

Risk-aware, risk-thinking and risk-managing organisations

Strategy + Risk

- Being an innovator and a leader is important for a successful BSO strategy, but this carries inherent risk.

- Good strategy formulation will include identification and management of risk.

- Strategic choices that result in a high or extreme risk should not be considered unless it is possible for the risk to be mitigated significantly, or transferred using insurance or some other underwriting option.

- Strategic choices that result in no or low risk should also be reviewed because they may mean that the BSO is not being sufficiently ambitious.

Where to Play: Using strategic horizons

At any one time, you should be delivering actions that support all three horizons.
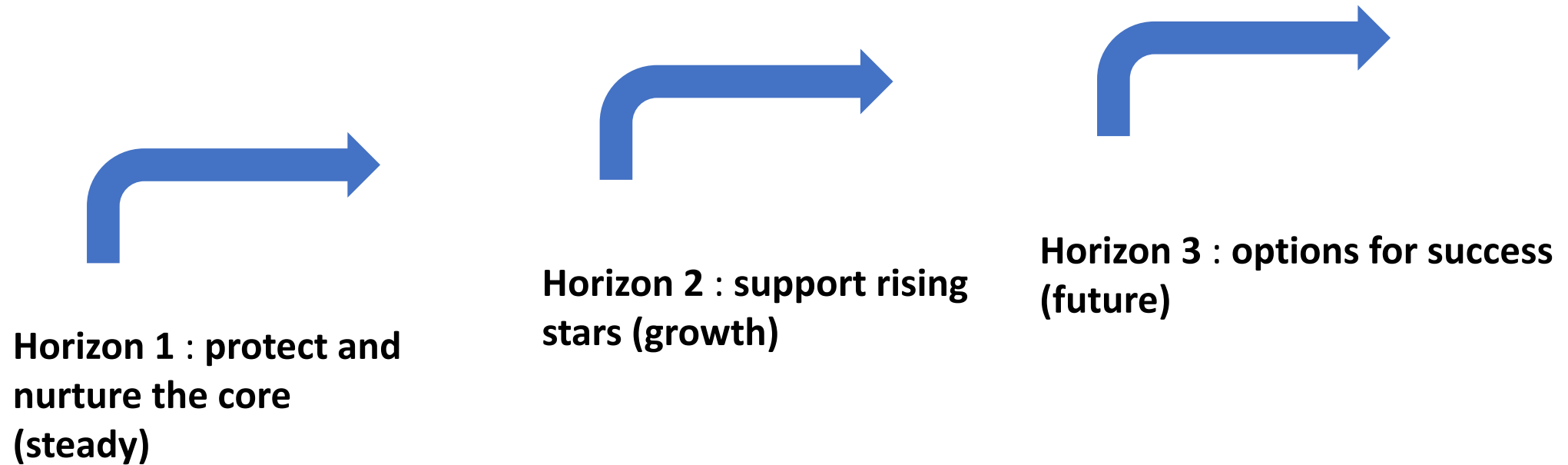The key strategic choice is the *percentage of effort in each*

Horizon 1 : protect and nurture the core (steady)	Horizon 2 : support rising stars (growth)	Horizon 3 : explore options for success (future)
Current volume	Current growth	Potential future growth
Short term (current) conditions	Medium term (known changes)	Long term (unknown changes)
Outcome indicators	Intermediate outcome indicators	Output indicators
Experienced businesses, successful products, familiar markets	Emerging businesses, products and markets	Potential business success
Low risk	Risk managed through « adjacency »	Risk managed through portfolio approach – many projects or start ups, of which some will fail
Customised, troubleshooting, PR	Grouped activities, learning and network development	Influencing the macro level conditions and the ecosystem of support; research and initial scoping of opportunities

Many private sector organisations allocate 70% of resource to H1, 20% to H2 and 10% to H3. What might work for you? 1

# Risk review process ➔ increased uncertainty

Horizon 1 : protect and nurture the core (steady)

Horizon 2 : support rising stars (growth)

Horizon 3 : options for success (future)

Many H1 activities are less certain, and therefore have to be treated like H2 in terms of risk, service channels, and indicators.

This increases significantly the overall risk profile of the organization, so consider reducing investments in H3 to help balance this.

Horizons and portfolio

Project A

Project B

Project C

E ⇔ F ⇔ H I J K

O N L M P Q R
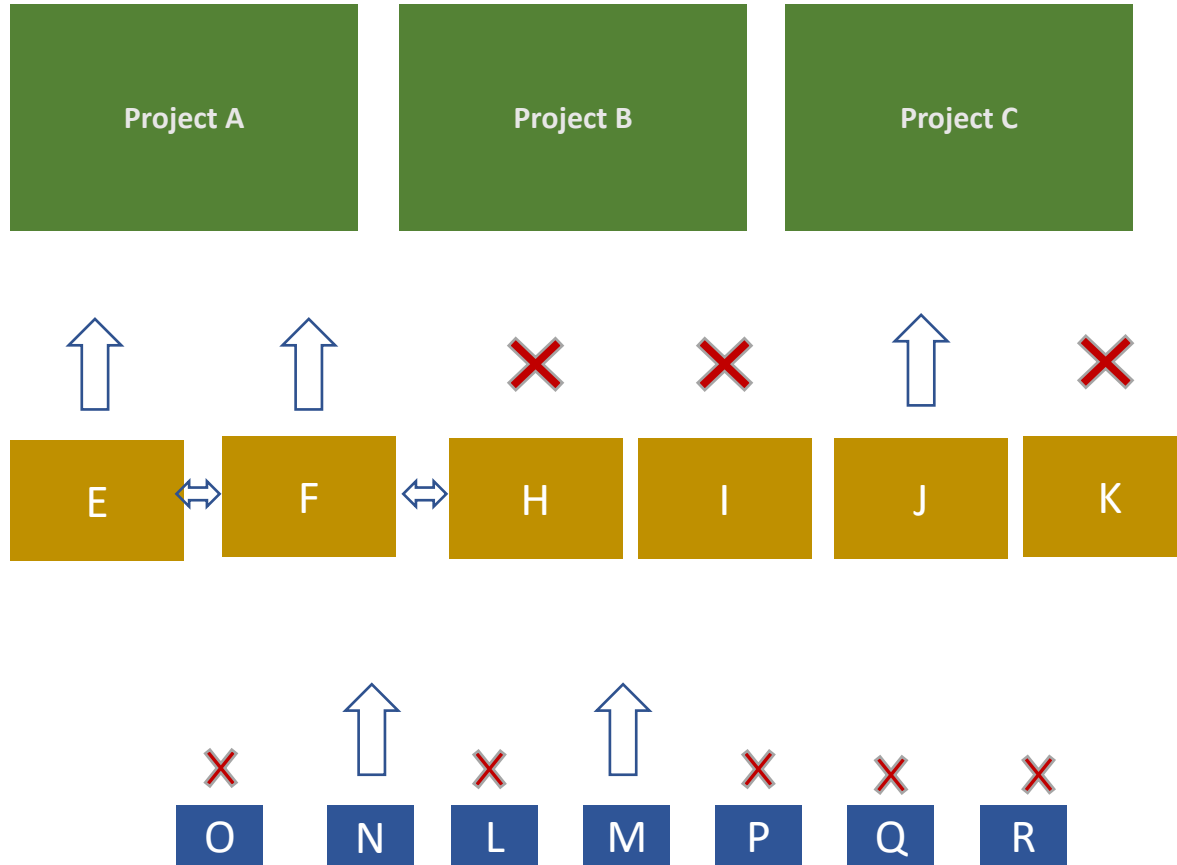
Few large-scale, high investment endeavours that drive the delivery on corporate indicators and client satisfaction

Horizon 1
60%?

A portfolio of projects that show good promise. Highly successful projects get additional investment to gain scale and feed the pipeline

Horizon 2
30%?

Several short pilot projects that are used as proof of concept, idea testing, etc., with small investments and very close monitoring and evaluation

Horizon 3
10%?

Innovation + Risk

- BSOs, including membership based organisations, can be considered risk-sharing entities:
  … they support business to minimize and share risks for the growth of their businesses
  … they create a critical mass to experiment and explore
  … if you are not taking risks, then why are you needed?

- Risk is the flip-side of innovation. You cannot have innovation without risk

- The strategic horizons help you determine where risk through innovation is more comfortable

- The cookie model helps you understand understand your risk attitude and preparedness

The blame culture

- A blame-free working environment supports innovation
- When mistakes and failure can be openly discussed, it:
  - allows risks to be identified in time
  - encourages innovative thinking to overcome problems
  - supports a culture of review and lessons learned – learning organisations tend to address risk better
- A non-punitive approach to reporting events/incidents/faults
- A culture of intellectual confrontation and critical thinking where staff can express concerns without fear of being persecuted

- Hostile environments/blame cultures:
  - inhibit the ability to seriously discuss risk and failure
  - discourage error reporting and risk reporting: the messenger is shot
  - stifle innovative thinking
  - suffer from "groupthink": a course of action with support within a group will be unchallenged as objections are suppressed
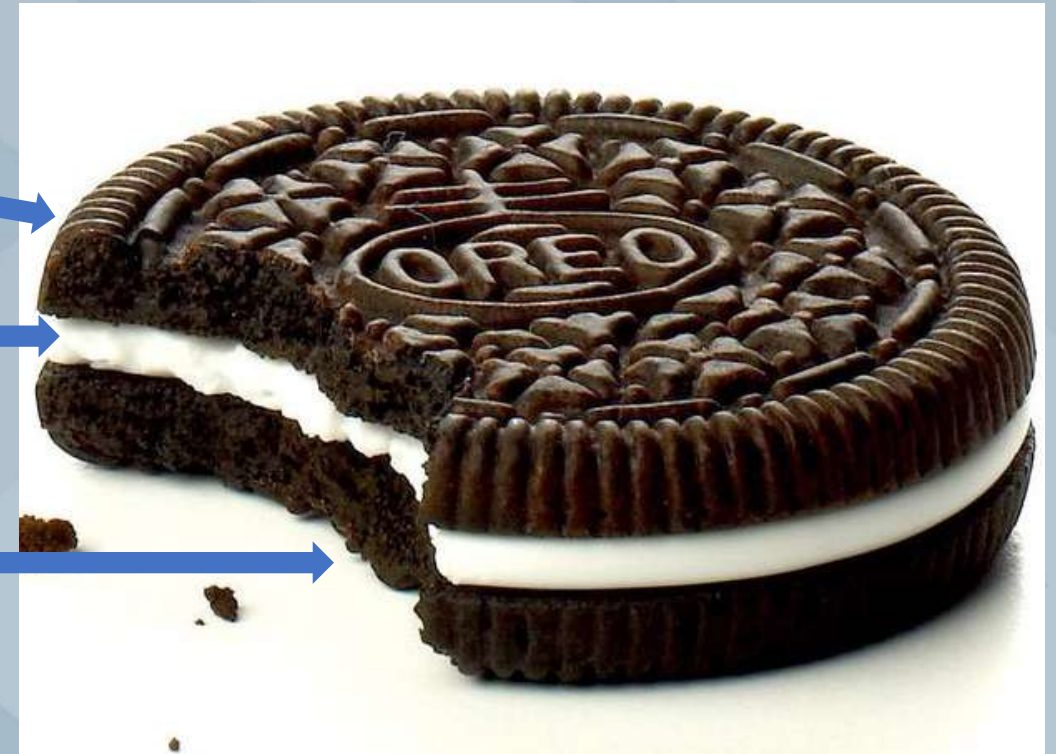
Governance + Risk (the role of the Board)

- Understand the **uncertain internal and external factors** affecting the achievement of objectives

- Consider **both positive or negative** (may depend on context and perspective)

- Consider **all types** of risk: strategic, operational, financial, fraud, reputational, political, etc.

- Decide the **amount of risk** that the organisation is prepared to take

- Implement necessary **controls,** provide stewardship

- Embed notion of risk into the **culture,** without being risk averse

The cookie model

High performing BSOs exhibit:

- Absolute clarity from the top on <u>purpose, behaviour, strategy</u> (tight);

- Authority to <u>act and spend delegated</u> down to middle management (loose);

- Consistent <u>measurement and reporting</u> of results, regular individual performance reviews, managed risk, audit and control (tight).

Tight Loose Tight : Empowerment vs Control

Check out: In Search of Excellence. Thomas J. Peters, Robert H. Waterman (1982)

Cookie types

TLL

- × High risk
- ✓ High creativity and autonomy
- ✓ Clear purpose
- × Low strategic alignment
- × Unproductive, uncoordinated activity

TTL

- ✓ Medium risk
- × Low levels of innovation
- × Micromanagement
- × Unproductive, uncoordinated activity
- × Low employee engagement

TLT

- ✓ Well managed risk
- ✓ Strategic alignment
- ✓ Engaged employees
- ✓ Productivity gains
- ✓ Continuous improvement
- ✓ Innovation aligned with strategy

TTT

- ✓ Low risk
- × Low levels of innovation
- × Static and unable to change
- × Micromanagement
- × Low employee engagement

- × High risk
- × High undirected creativity
- × Employees lack purpose
- × No strategic alignment
- × Unproductive, uncoordinated activity

LLL

- × High risk
- × Low creativity
- × No strategic alignment
- × Unproductive, uncoordinated activity
- × Micromanagement
- × Low employee engagement

LTL

- × High risk
- × No strategic alignment
- × Unproductive, uncoordinated activity
- × Employees lack purpose

LLT

- × Low levels of innovation
- × Micromanagement
- × Unproductive, uncoordinated activity
- × Low employee engagement

LTT

Managing risk for better results

- Adopt a Risk culture – shared approach, blame-free environment, free flow of information, training provided

- Planning for an activity should include a deliberate review of the assumptions being made and the risks being taken that might affect results

- Rate risks using likelihood and impact

- Risks with high impact or high likelihood require treatment to make them less likely or less impactful

- Regular review of the overall set of risks faced by the project or organisation

- Communicate about risk, talk openly of the risk approach, welcome conversations about risk

- Track risk on a matrix, in a register, to improve your ability to respond

- Give likelihood and impact clear definitions

- There are several treatment options to consider

- Review of specific projects and activity

Risk management: mechanics and language

- Types of risk

- Tolerance and appetite

- The difference between risk, assumption and issue

- How to state a risk

- Likelihood

- Impact

- Risk matrix

- Risk treatment

Key types of risk

Risk type	Ask	Example
Strategic risk	What could stop us achieving our strategy?	Global pandemic Recession
People risk	How do we retain our best people?	Key person loss Safety concerns
Operational (delivery) risk	What can go wrong?	Network failure Planning/communication error
Financial risk	Are we on track and on budget?	Currency fluctuation Loss of sponsorship
Reputational risk	Will this be perceived unfavourably?	Political fall-out Front page, for the wrong reason
Project risk	Are we achieving our milestones?	Poor project tracking Partner delivery failure

Also compliance, fraud, social, environmental …

Risk appetite and risk tolerance

- Agree the level of risk appetite and tolerance to guide decisions

- Have a risk appetite statement

- Have a risk tolerance statement

- Know your risk capacity

Risk Appetite — 'The amount and type of risk an organization is willing to accept in pursuit of its business objective'

Risk Tolerance — 'The maximum amount and type of risk an organization is willing to tolerate'

Risk Capacity — 'The maximum level of risk an organisation may run given its capital and liquidity position and other restrictions'.

Risk universe — 'All potential risks of the organization'.

Diagram based on EY

ITC's Risk Appetite Statement – including tolerance levels

ITC's vision and mission	Strategic goals
Vision: Good trade. Mission: To enhance inclusive and sustainable growth and development in developing countries, especially least developed countries, and countries with economies in transition through improving the international competitiveness of MSMEs.	• Improved national business and trade environments for MSMEs • Improved performance of trade and investment support institutions to offer high-quality, sustainable business services to MSMEs • Improved international competitiveness of MSMEs

ITC's risk appetite describes levels of risk that ITC accepts while achieving its mission, impact and outcomes for its clients.

While achieving its goals: ITC has **high** appetite for risks related to achievement of development impact for its clients, **low** appetite for exposing staff to danger and **zero tolerance** for fraud and corruption; discrimination, harassment, including sexual harassment and abuse of authority. ITC is guided by the **"do no harm"** principle in all its activities.

High risk appetite for:
- Collaborating with partners that share our values for making trade development assistance more accessible, sustainable and impactful
- Innovation
- Ensuring continuity of field operations

Medium risk appetite for:
- Deviation from annual planned budgets and targets, including re-phasing of funds
- Loss of intellectual property

Low risk appetite for:
- Loss of credibility and reputational damage
- Reduction in funder support
- Exposing staff to danger
- Negative side-effects (externalities)
- Working with weak monitoring structures
- Working with inadequate implementing partners
- Non-compliance with administrative instructions and with project-management rules (including risk management requirement)

Zero tolerance

Zero tolerance for fraud and corruption; discrimination, harassment, including sexual harassment and abuse of authority

ITC's risk appetite statement

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ITC's Risk Appetite Statement: detail

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Discussion in groups

How might a having a risk statement change the discussion and decision making in your organisation? How might it help you be more agile?

Time for a quick break!

Be back in 5 minutes, please!

Risks and assumptions

What is a project risk in logframe language?

A risk is an assumption with a high probability of not holding true

What is an assumption?

- Describes conditions (external factors) that must exist if the project is to succeed, but are beyond the control of project management

- Allows planners and project managers to assess risks, which can jeopardize the success of the project

- Assumptions are worded positively, i.e. they describe circumstances required to achieve certain objectives; and risks are worded negatively

Analysis of assumptions
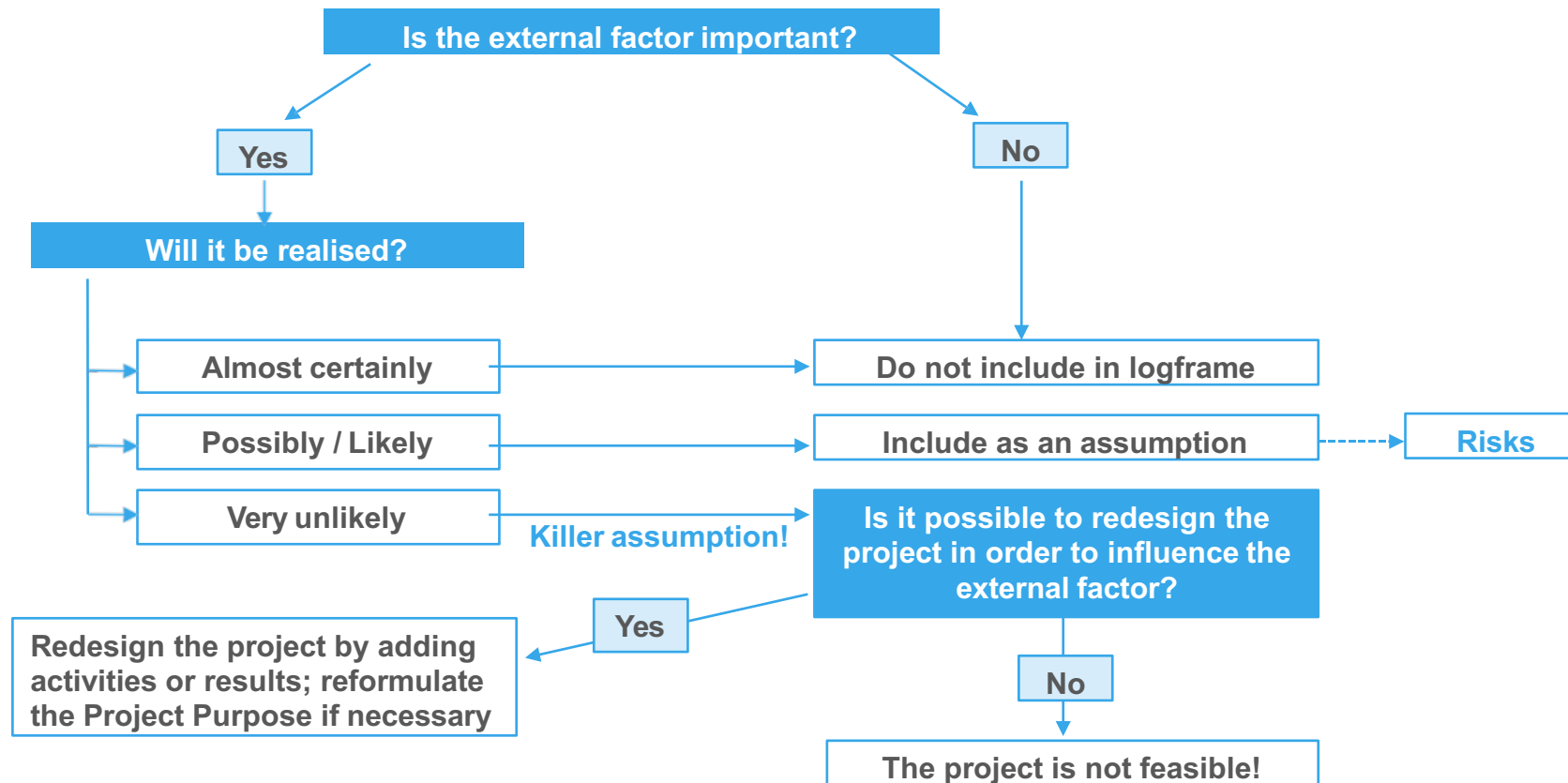
External and internal risks

- **External risks** are composed of factors external to the project– in particular in the project design and preparation phase – outside project management's direct control.

- These external risks are directly related with the assumptions in the logframe.

- At the beginning of the implementation, as part of the inception phase, in addition to the external risks, **internal risks** are identified.

- These are risks which are related with the project management capacity such as staff turnover, budgets not available on time, heavy decision making processes, long procurement procedures, etc.

- These risks are **NOT** included in the logframe.

Examples of external project risks

- Unusual low commodity prices causing detrimental effects on project beneficiaries, e.g. farmers

- Bad weather conditions destroy partially or entirely harvest

- Lack of relevant and committed partners

- Partners or beneficiaries do not have technical and human absorption capacity

- Political unrest or unstability

If the risk has already happened, it is not a risk: it is an issue

Formulation of risk statement – how to express a risk

If (risk event) – then (consequence to objectives)

• Risk event is uncertain • May be conditional • May be connected	• Consequence is negative • It is quantifiable • It is the effect of risk occurring • May be influenced

There are other ways to formulate the statement (more detailed/sophisticated) easily found online. But the core statement remains 'if this, then that'.

Risk matrix – plot your risk

- Can vary - eg, 3 X 3, 4 X 4, 5 X 5

- Axes are likelihood and impact (or probability and consequence)

- Need to have definitions and criteria for Likelihood and Impact

- Categorise risks and use matrix to position risks and map progress

- Create monitoring process and apply RASCI to management. Someone needs to own the risk

- Extreme risks go straight to the highest level

- You may need a crisis team

- Consider disaster recovery or business continuity plans

IMPACT			
High	Minimum Risk	High Risk	Critical Risk
Medium	Low Risk	Minimum Risk	High Risk
Low	Low Risk	Low Risk	Minimum Risk
	Low	Medium	High

PROBABILITY

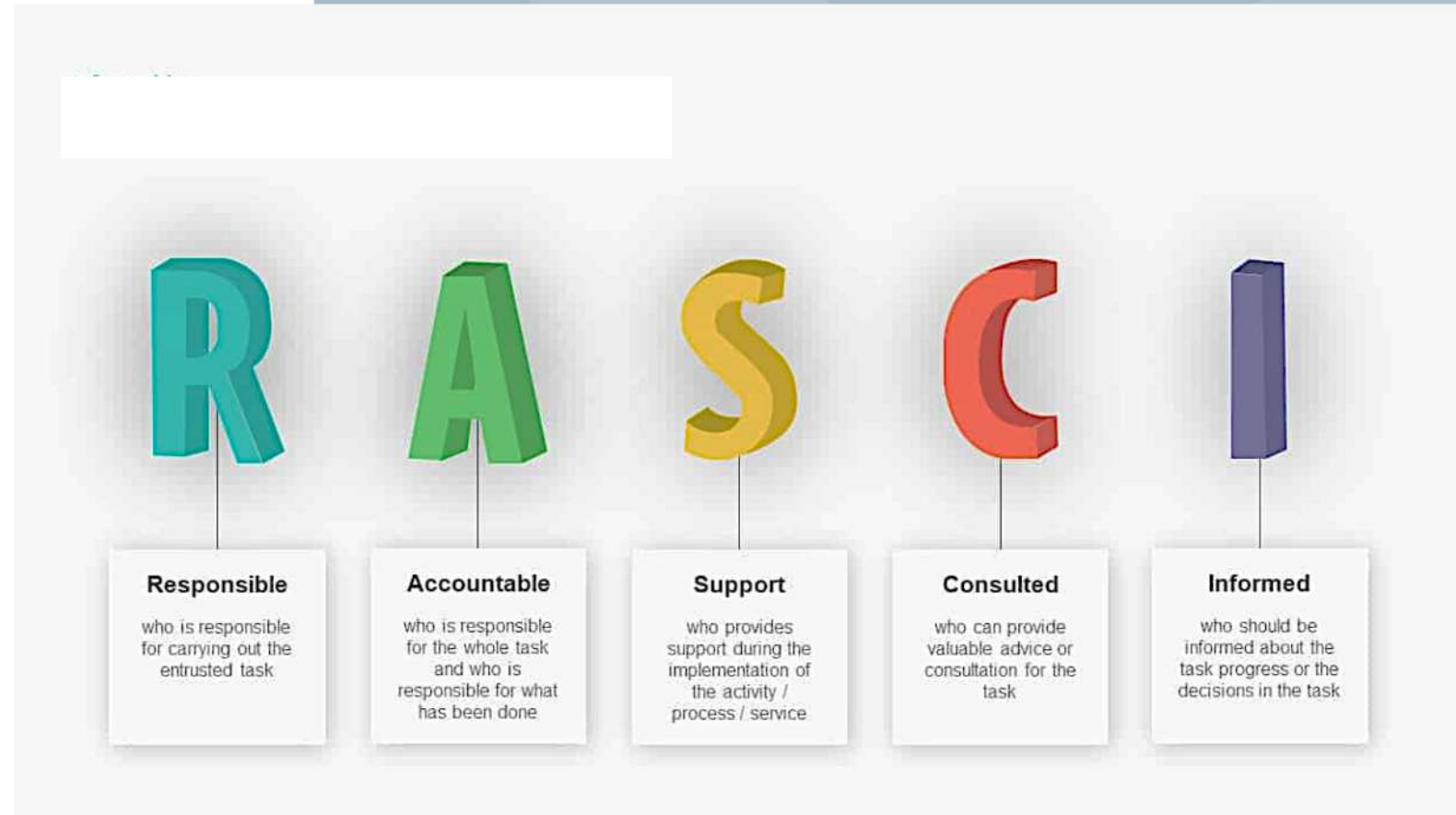| Likelihood	Impact				
	Insignificant	Minor	Moderate	Major	Severe
Almost certain	Moderate	High	High	Extreme	Extreme
Likely	Moderate	Moderate	High	High	Extreme
Possible	Low	Moderate	Moderate	High	Extreme
Unlikely	Low	Moderate	Moderate	Moderate	High
Rare	Low	Low	Moderate	Moderate	High

RASCI

R – who is responsible?

A – who is accountable?

S – who is supporting?

C – who is consulted?

I – who is informed?

Responsible	Accountable	Support	Consulted	Informed
who is responsible for carrying out the entrusted task	who is responsible for the whole task and who is responsible for what has been done	who provides support during the implementation of the activity / process / service	who can provide valuable advice or consultation for the task	who should be informed about the task progress or decisions in the task

Risk matrix (3x3)

Risk matrix (5x5)

Likelihood	Impact				
	Insignificant	**Minor**	**Moderate**	**Major**	**Severe**
Almost certain	Moderate	High	High	Extreme	Extreme
Likely	Moderate	Moderate	High	High	Extreme
Possible	Low	Moderate	Moderate	High	Extreme
Unlikely	Low	Moderate	Moderate	Moderate	High
Rare	Low	Low	Moderate	Moderate	High

Definition examples

Likelihood
Low/rare : perhaps has happened once in the past 10 years
Moderate : has happened in the past 2-4 years and may occur again within 3 years
High/Likely : has happened in the past year and strong possibility it will occur again

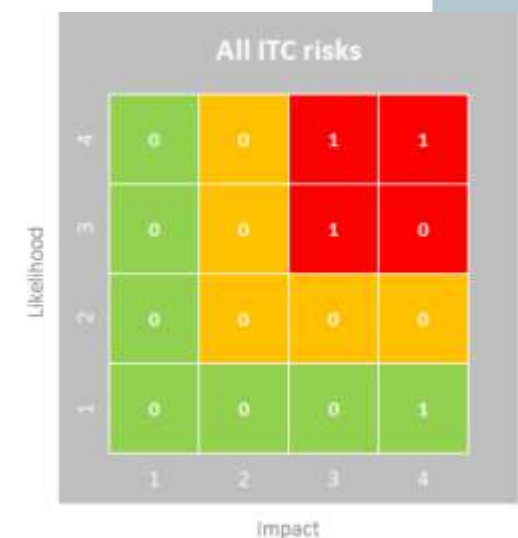| Impact |
|---|
| Low/rare : objective can still be achieved but may be impacted (time/quality/cost) |
| Moderate : objective will be hindered but may be achievable (may need to be modified) |
| High/Likely : significant disruption/paralysis to project or organisation; objective cannot be achieved |

Level of risk definitions and guidance

Risks in the red zone: Action <u>mandatory</u> to risk owner within the next month with proposed actions & target risk level (review: every 6 months).

Risks in the amber zone: Action <u>necessary</u> to ensure risk does not increase. Propose actions. (review: once a year).

Risks in the green zone: Actions <u>voluntary</u>, don't waste resources. Or look into increasing the risk in order to pursue an opportunity.

Provide definitions for Likelihood and Impact
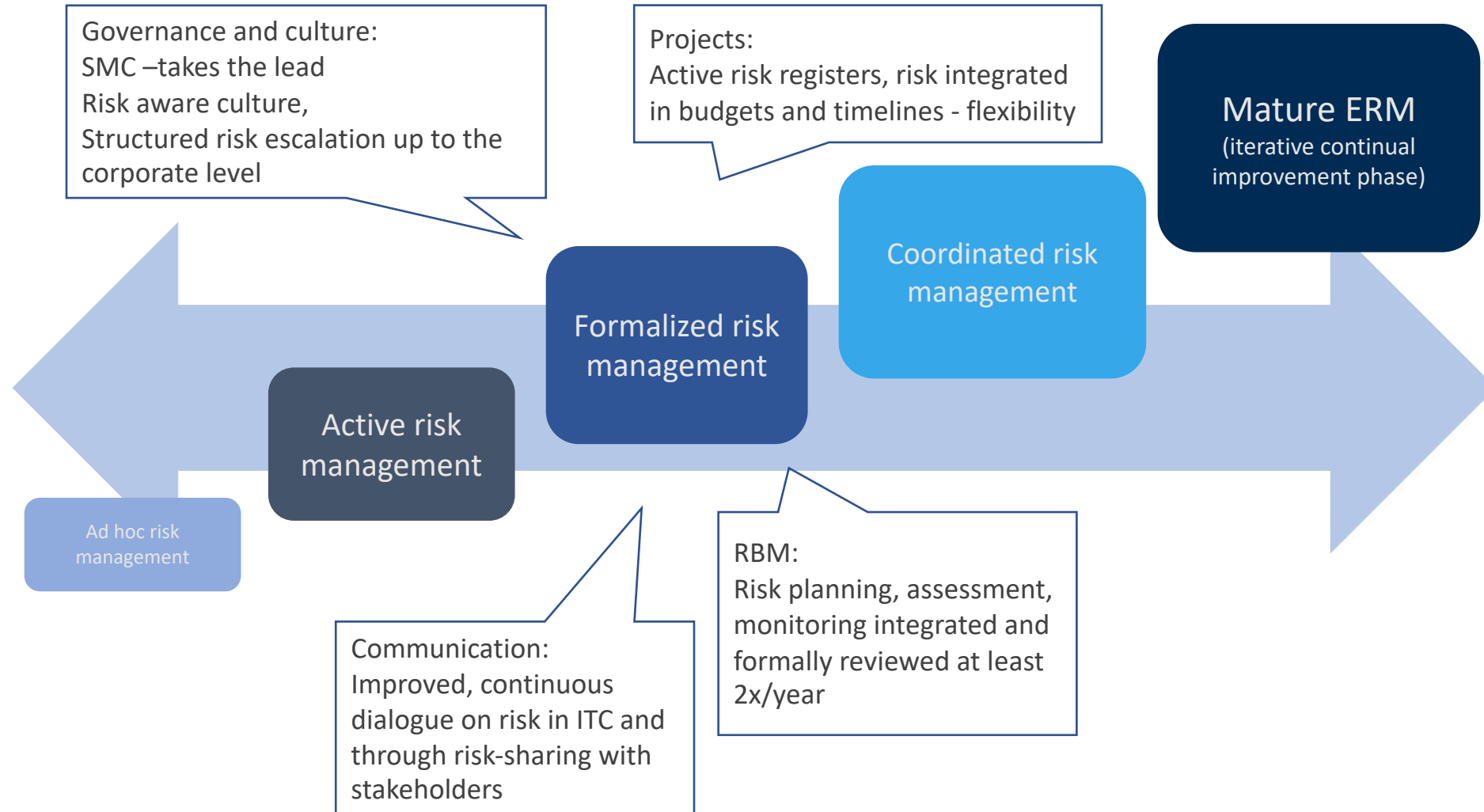
Exercise: plot a risk on the matrix

Risk treatment

Five key avenues of treatment:

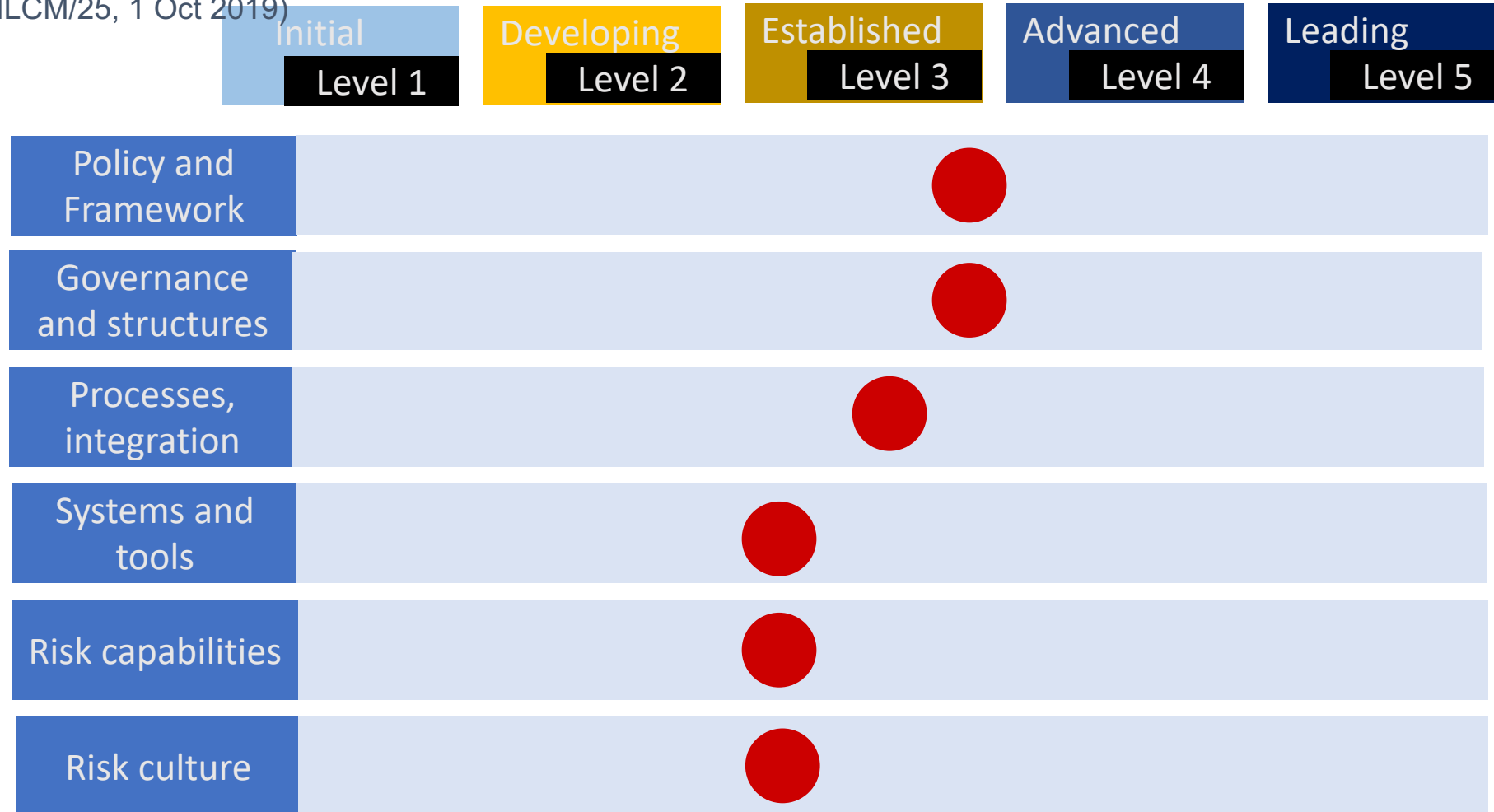- *Avoid or terminate* (seek to eliminate activity that triggers such a risk)

- *Transfer* (pass ownership and/or liability to a third party)

- *Mitigate* (reduce the likelihood and/or impact of the risk below the threshold of acceptability)

- *Tolerate* (tolerate the risk level)

- *Exploit* (take advantage of the opportunity)

Where is ITC actually in risk management?

Governance and culture:
SMC –takes the lead
Risk aware culture,
Structured risk escalation up to the corporate level

Projects:
Active risk registers, risk integrated in budgets and timelines - flexibility

Mature ERM
(iterative continual improvement phase)

Coordinated risk management

Formalized risk management

Active risk management

Ad hoc risk management

Communication:
Improved, continuous dialogue on risk in ITC and through risk-sharing with stakeholders

RBM:
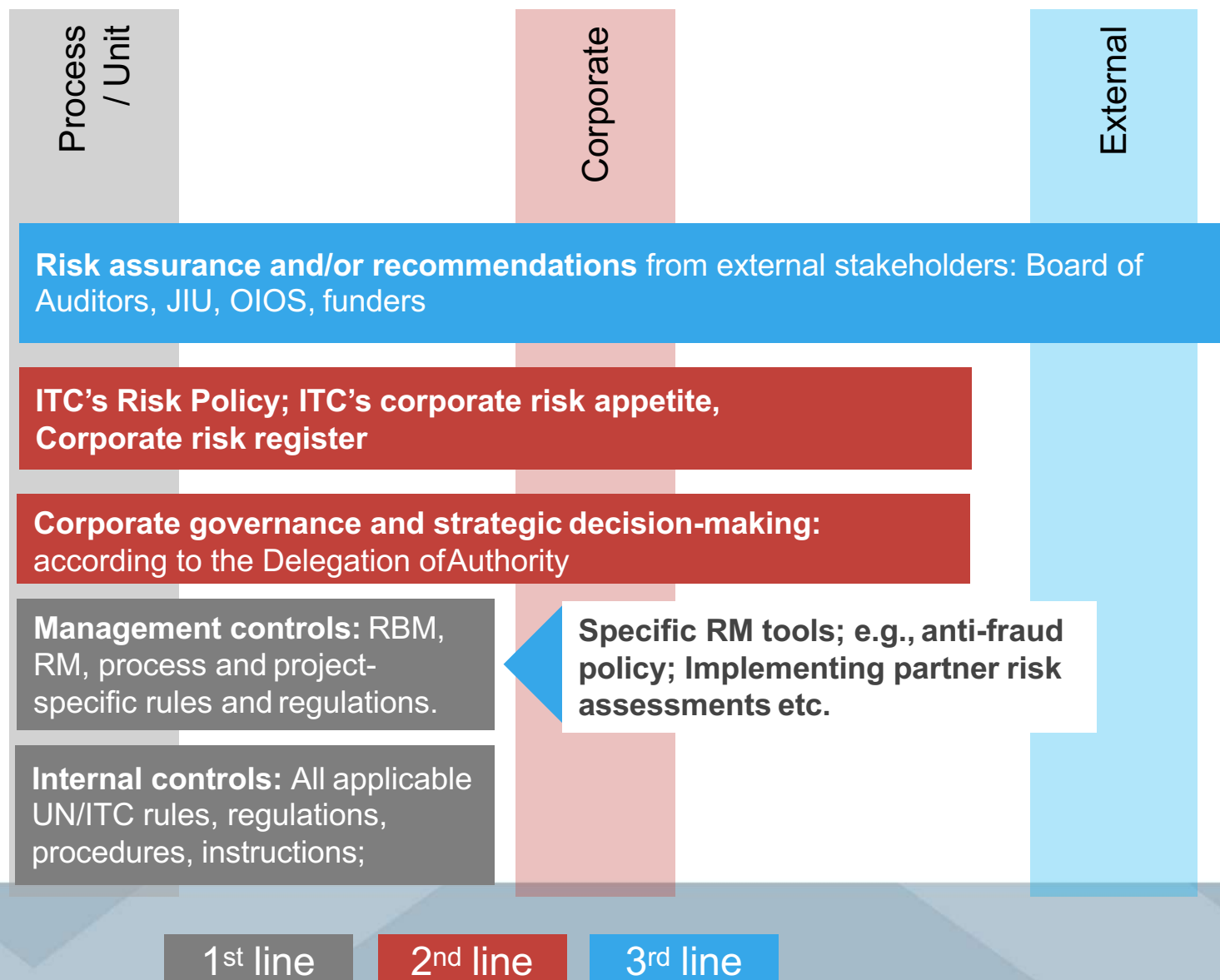Risk planning, assessment, monitoring integrated and formally reviewed at least 2x/year

ITC's rated its current practices according to the UN reference maturity model for risk management

(CEB/2019/HLCM/25, 1 Oct 2019)

ITC's risk framework elements at different organizational levels

Process / Unit

Corporate

External

Risk assurance and/or recommendations from external stakeholders: Board of Auditors, JIU, OIOS, funders

ITC's Risk Policy; ITC's corporate risk appetite, Corporate risk register

Corporate governance and strategic decision-making: according to the Delegation of Authority

Management controls: RBM, RM, process and project-specific rules and regulations.

Specific RM tools; e.g., anti-fraud policy; Implementing partner risk assessments etc.

Internal controls: All applicable UN/ITC rules, regulations, procedures, instructions;

1st line

2nd line

3rd line

Poll: Where would you place your organization?

Mature ERM
(iterative continual improvement phase)

Coordinated risk management

Formalized risk management

Active risk management

Ad hoc risk management

1

2

3

4

5
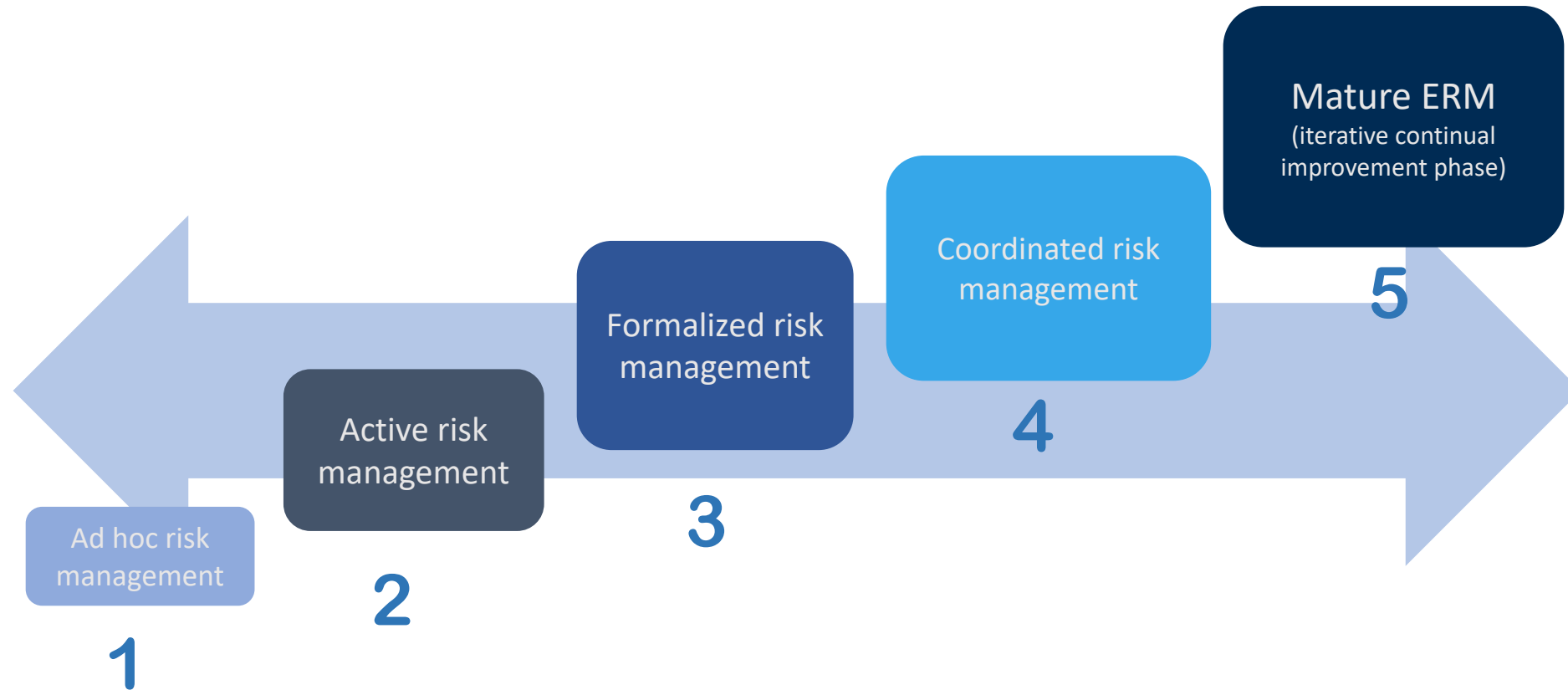
Quick win (1): Think about actions before and after risk event

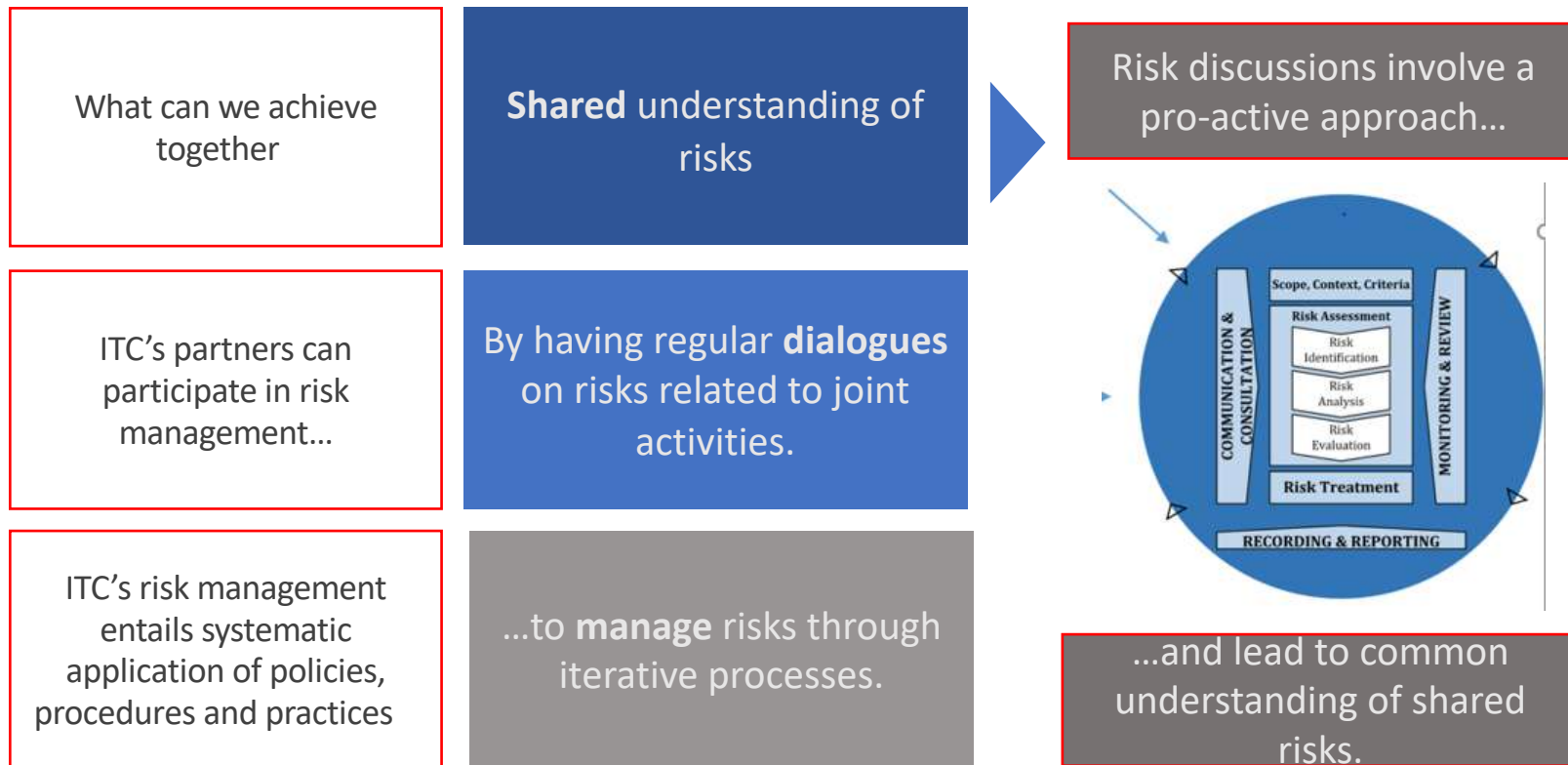|			
Example 1: After the project closure – which risks remain?	▶	How to ensure sustainability of results through good risk planning?	
Example 2: Reputational risk as a top strategic business risk	▶	All partnerships involve releasing some control over reputation to a partner institution.	

Question: **What are your views and experiences on risks?**

Quick win (2): Communicate risks with stakeholders beneficiaries and partners

Risk is subjective and socially constructed, it resides in the relation between human beings.

What can we achieve together	**Shared** understanding of risks	Risk discussions involve a pro-active approach…
ITC's partners can participate in risk management…	By having regular **dialogues** on risks related to joint activities.	
ITC's risk management entails systematic application of policies, procedures and practices	…to **manage** risks through iterative processes.	…and lead to common understanding of shared risks.

Business continuity planning

- Not rocket science (PPPPP)

- A plan containing key information and actions if something goes wrong

- Helps resume operations as soon as reasonable

- Reflects your structures, circumstances, systems, processes and priorities

- Template to fill as you wish. Some sections may not be relevant to your organisation

- Assign a team to prepare it; update annually

- Best practice to train and ensure everyone knows about the plan and their roles

To sum up...

- Understanding the uncertain internal and external factors affecting the achievement of objectives is **empowering**

- Use risk to help you innovate and **move with confidence**

- Embed notion of risk into the **culture -** a risk-aware, no-blame approach

- Decide the **amount of risk** that the organisation is prepared to take

- Manage your portfolio using **strategic horizons**

- Assess and track risk using a **matrix**

- Determine a **treatment** for each risk

- **Start** the journey; search the internet for risk tools and templates

- Your biggest risk might be in **not** taking the risk

Q&A

Thank you