RiskNZ

Making even better decisions

the role of risk management

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Roger Estall

> *“Never compromise on logic and challenge anything that, quite simply, does not make sense"*

50 years ago …

- **Decision support:**
  - What could happen?
  - What it could lead to (in terms of ranges of effects on people, property, etc.)?
  - How likely were those effects?
  - So, what was the best thing to do, if anything?

> **My ‘customers’ must understand and appreciate the answers!**

How on earth did we end up here?!

- **Confusion**
- **Risk management work is often marginalised and mostly unappreciated (and maybe this is right!)**
- **Even amongst ourselves, we can’t agree what the foundational words ‘risk’ and ‘risk management’ actually mean?**
- **Jargon, confections and special artefacts of the RM Belief System abound!**

> **How have we ended up making what is, fundamentally, a simple concept, into something complex and difficult to understand – and irrelevant to most people?**

1980's and 90's — things started to go awry!

- **Projects held 'risk logs' – over-budget or delays**
- **Listing 'risks' in the workplace, not focussing on 'risk' *per se***
  - 1989 European Community Directive — workplaces must list health and safety 'risks'
  - How could different type of hazards could be assessed using the same approach – leading to some total measure of risk
  - This led to **qualitative risk ranking** and the **matrix/heat map**!
- **The Turnbull Rules in the UK — 1999**
  - Concerned with 'Internal Controls) – fraud and misstatement of accounts - and the protection of shareholders. Asked for the listing of risks
  - Much adverse feedback – all ignored
- **COSO ERM 'Framework' — 2004**
  - An industry response to boost consulting revenue after the Enron collapse
  - Unintelligible without consultant help

How was on earth was ‘risk management’ linked to Governance?

- **Governance - “how well an organisation is run”**

- **OECD —**

  Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. **Corporate governance provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined**

> ***It’s all about making good decisions – at all levels***

AS/NZS 4360, ISO 31000

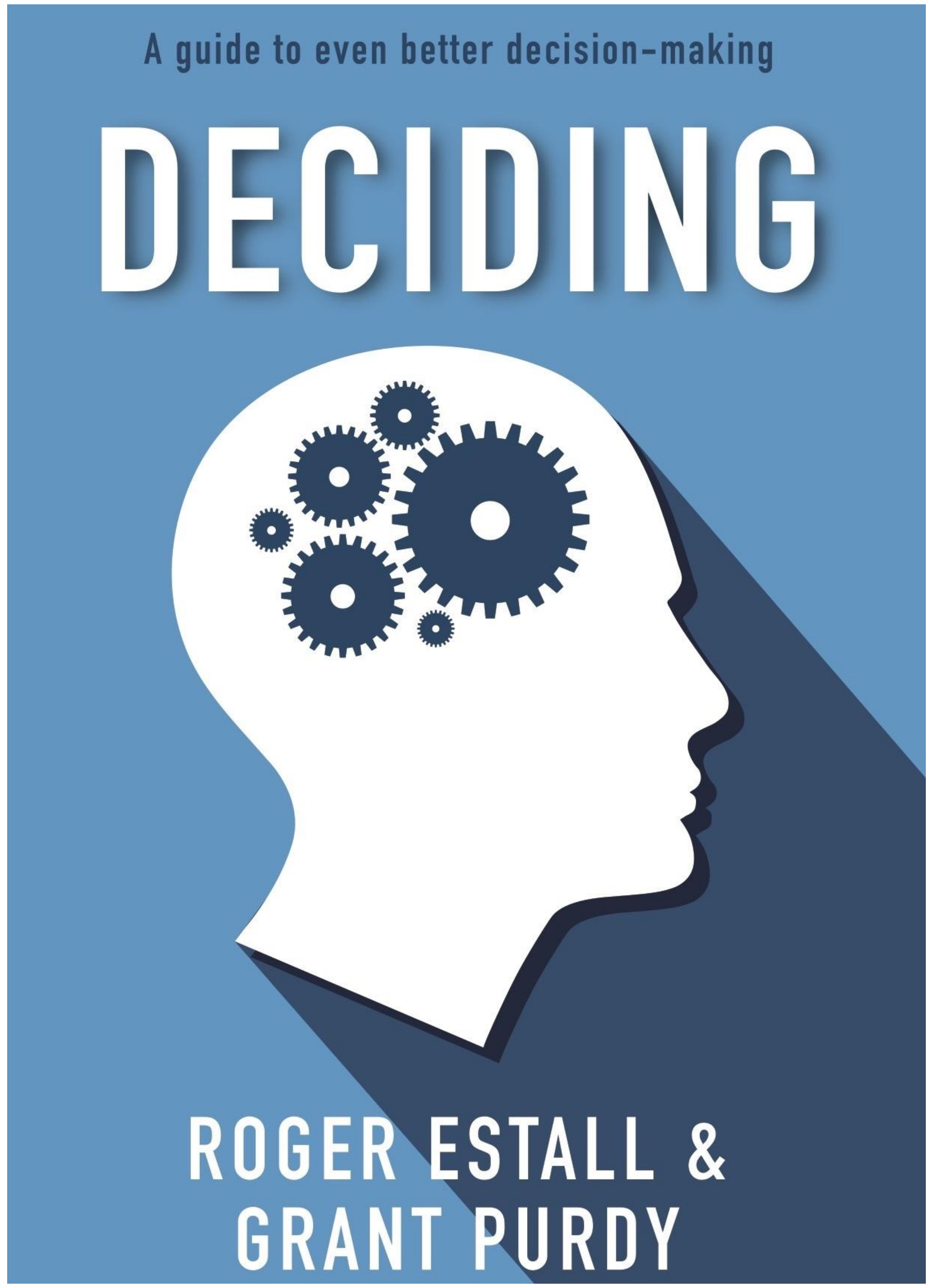
- **AS/NZS 4360 1995/1999/2004**
  - Attempt to align different approaches to risk assessment and ‘treatment’
  - Risk = “*the chance of something happening that will impact objectives*”,
  - The committee expressly did not define what ‘a risk’ is, as the standard was concerned with the management of risk and not of ‘risks’
- **ISO 31000 (2009)**
  - Built on 4360
  - Risk = “effect of uncertainty on objectives”
  - Framework — “the full integration of the management of risk into decision-making processes of the organisation”
  - **Effective risk management** – integration with decision making

The aborted formal revision of ISO 31000 (2015)

- **Authors of 31000:2009 all agreed that an obvious dichotomy existed:**
  - Requires full integration into making decisions **but**
  - A discrete process for risk assessment and separate artifacts such a ‘policy’ and ‘framework’ with the word ‘risk’ placed in front of them.
  - Having standalone, separately labelled artefacts and processes discourages and prevents integration!
- **A radical revision was required: “ assisting organisations to recognize and take account of uncertainty as a part of making decisions ”**
- **A detailed design specification was produced. USA (RIMS), Ireland, the UK, Demark, Turkey, Australia and New Zealand and warmly welcomed by the ISO Technical Committee in Dublin in 2015 - sent out for wider consultation.**
- **Then the pushback occurred!**
- **Hastily convened meeting of the Technical Committee in Rio in 2015 – voted down by the small number present in favour of a very limited revision only.**

Helping organisations recognize and take account of uncertainty as part of making decisions

- **Based on the 2015 revision to ISO 31000 – that was aborted!**
- **About making even better decisions - consistently**
- **Written for 'Deciders' on the basis of what we learned in similar but separate careers over 40+ years each**
- **Analysis of many successful and unsuccessful decisions**
- **Jargon - free**



We now have two, divergent streams of thinking

Risk listing and reporting

Risk management

RM1 Whole array of artefacts, separate from normal decision making

RM2 Starting with the decision and considering the uncertainties in outcome

Helping make decisions

Fallacies and Confections – from the RM Belief system (RM1)

- **Integration into decision making is easy or possible**
- **Listing risks in a risk register is useful for people when making decisions**
- **Risk matrixes/Heat Maps produce a reliable level of risk – that can be used in decisions**
- **Risk Appetite Statements are useful and reliable for decision makers**
- **Others**
  - ‘Risk Culture’ means something
  - ‘Risk Maturity’ means something
  - A Risk Framework is (just) a document
  - ‘Emerging Risks’ means something
  - “Risk clock speed’, ‘risk velocity’, ‘inherent risk’, etc. are useful measures
  - Anything given a three-letter acronym must be worth adopting!

Decisions — the simple facts…

- **Every organisation exists for an explicit Purpose**
- **The only way to pursue and achieve that Purpose is to:**
  - Recognise **opportunities** as they arise or emerge?

  and then

  - Exploit those opportunities by making and and implementing **decisions**?
- **The success of each decision will depend on its quality**
- **The quality of decision-making is therefore central to good governance**

Features of ‘successful’ decision-making …

- **The actual outcome advances – rather than detracts from the organisation’s purpose**
- **The decision taken optimises the opportunity being exploited (e.g. is the most cost-beneficial option)**
- **The decision is durable (i.e. anticipates the possibility of change throughout the life of the decision)**
- **All the elements of the decision act to provide sufficient certainty that the actual outcomes will be as intended**

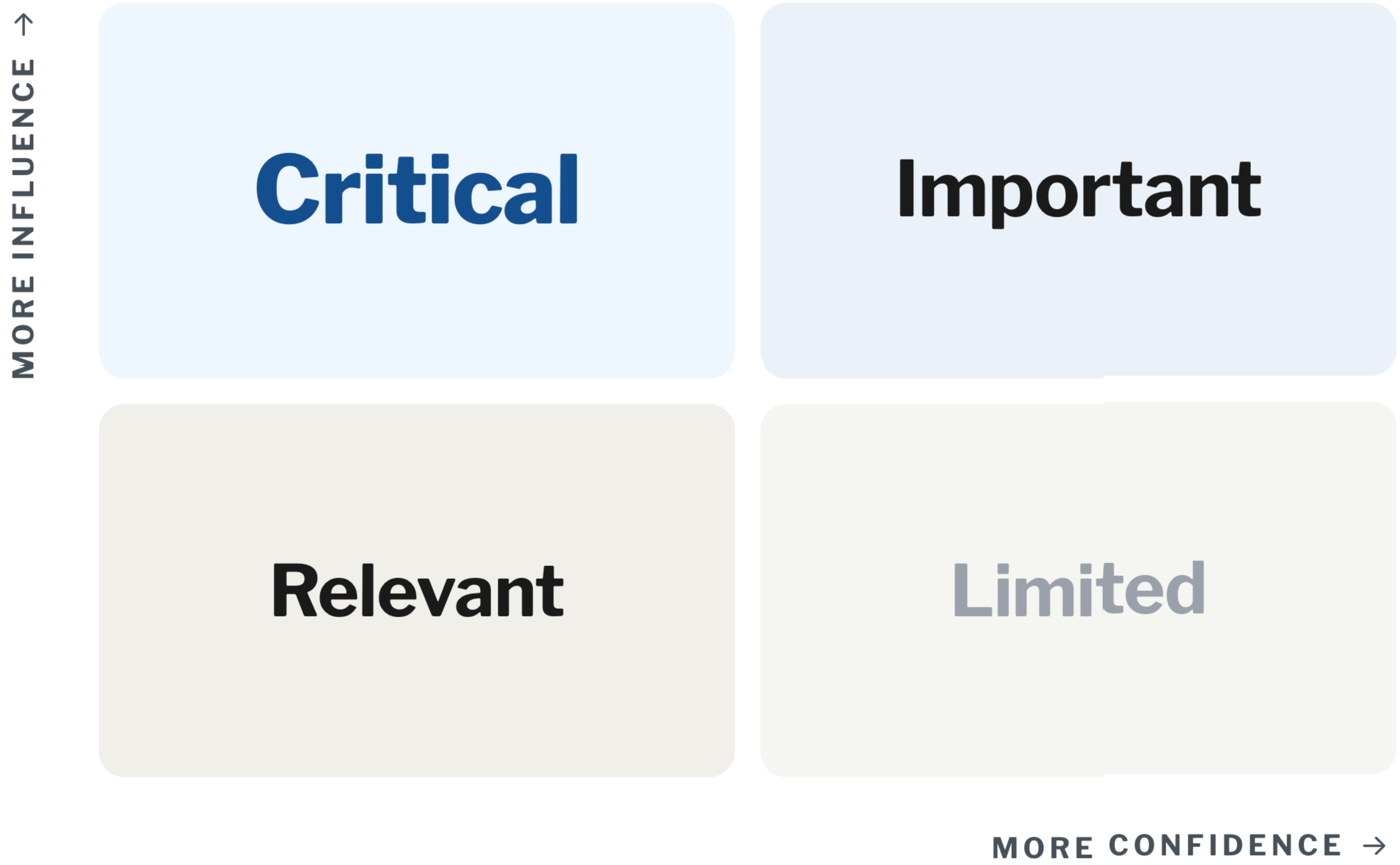
Step 1 — Frame the decision

- **Clarity as to Purpose**
  - Highest expression of the reason an organisation exists - reflects both the values to which the organisation aspires and what it seeks to achieve
- **Understand the opportunity**
  - “A time or set of circumstances that makes it possible to do something”
  - Will the opportunity lead to outcomes that support and advance our Purpose?
- **Define desired outcome**
  - That best exploit the opportunity and advance Purpose

Step 2 — Make the decision

- **Develop viable options (tentative decisions)**
  - Ways of achieving the outcome you intend
- **Understand the context and recognise associated assumptions and their significance**
  - Internal, External and Wider environments
  - Normally through conversations and information gathering (including risk analysis)
- **Finalise decision to achieve sufficient certainty of desired outcomes.**
  - Include secondary elements

Significance of assumptions



- **Critical** — reduce these or redesign the decision.
- **Important** — monitor for change.
- **Relevant** — acknowledge, do not overwork.
- **Limited** — safe to deprioritise.

Step 3 — Implementation

- **Before you finalise the decision!**
- **Decide what you will monitor and how variances will be detected and responded to**
  - **Track** the implementation of our decision
  - Ensure variances in the '**Important**' assumptions on which our decision rests will be detected

- **Monitoring is not an audit function!!**

What are the major causes of unsuccessful decisions
(see 'Deciding')

- **The 'decider' didn't understand the organisation's purpose (or substituted his/her own view)**
- **There was not sufficient certainty about the outcomes due to:**
  - unawareness of the nature or **significance** of assumptions
  - unknowns, errors, biases – that were not appreciated or dealt with
  - subsequent changes – that was not **detected** or **not allowed for** (e.g. no monitoring or contingency arrangements)

The Walk (2026)

Try it out for yourselves!

Walk.sufficientcertainty.com

DECISION RECORD

Ref: DEC-2025-117

Deploying AI for Quality Inspection

Purpose

Reduce defect-escape rate below the 0.4% contractual threshold and scale inspection capacity for the planned 18% volume increase on Lines 3 and 4.

Options Considered

A. Full AI deployment across both lines simultaneously
B. Staged rollout: Line 3 first, Line 4 after six-month validation
C. Hybrid model: AI flags, human confirms (permanent)
D. Staged rollout with parallel-run period (selected)

Assumptions

Model accuracy will meet the 99.2% regulatory threshold within six months	Critical
Production line staff will operate alongside the new system without disruption	Critical
Hardware supplier can deliver and install within the shutdown window	Important
IT can provision GPU compute without impacting existing MES uptime	Important
Training data from Lines 1 and 2 will transfer to Lines 3 and 4 product mix	Important

So, what about disruptions and disruptive events?

- **This is not a separate exercise from making any decision!**
  - Think of potential **variances** to assumptions and your organisation's **vulnerability** to them
  - Improve the **durability** of decisions
- **A disruption is an opportunity!**
  - Decide, often at short notice, how to best to leverage and achieve Purpose
- **Disruptions invariably create opportunities for strategic advantage**
  - BCM and its rubbery cousin, 'Resilience', are focussed on returning to the status quo. Why waste the opportunity? Why waste the investment required?
  - Conventional insurance also creates a disincentive to beneficial change

How people trapped in the RM profession feel (based on feedback)

- Many people, especially younger ones, feel they have become wedged in a narrow niche – their work is not respected and demonstrably does not create value
- They constantly must justify what they do and explain tortuous concepts and terms to sceptical customers
- When decisions are being made, they are excluded, and their contributions (risk registers etc.) are largely ignored or misrepresented
- They are not seen as facilitators of conversations on uncertainty, but just producers of compliance driven ‘stuff’. Opportunity for progression is stifled
- Most professional organisations present a confused and ambiguous picture – they now preach integration with decision making and decision support, while promoting practices and artifacts that act against

So, what should RiskNZ do?

- Come off the fence and support decision making as the only reason for RM and that risk information is not added later, but feeds into conversations about assumptions during decision making
- Build the skills of its members in facilitating conversations to support decision makers - dealing with bias and lack of clarity or honesty about assumptions
- Focus on skills to help spot and act on opportunities (not positive risks!!!)
- Emphasise that a disruption is an opportunity – and that reverting to status quo is most often the worst response
- Teach the essential steps in decision making and how they can be improved – so that the members gain recognition within their organisations for their expertise in improving decision making
- Challenge regulators who still insist in the production of lists of risks and other confections like risk appetite statements and risk culture surveys

“Placing a sign in the Window”

How communism continued ...

A greengrocer. Every morning, this shopkeeper places a sign in his window: *“Workers of the world, unite!”* He doesn’t believe it. No one does.

But he places the sign anyway to avoid trouble, to signal compliance, to get along. And because every shopkeeper on every street does the same, **the system persists!**

Václav Havel

Thank you!

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