CABINET OFFICE

PERFORMANCE AND INFORMATION UNIT (PIU)
STRATEGIC THINKERS SEMINARS

MANAGING RISK AND UNCERTAINTY – THE CHALLENGES FOR THE NEXT DECADE

14th DECEMBER 2001

Introduction

This note is a synthesis of a PIU Strategic Thinkers Seminar, on the theme of *managing risk and uncertainty*. The aim of this seminar, one of a series organised by PIU's Strategic Futures team, was to share and discuss thinking on risk within central Government and to help policy-makers explore ideas about handling risk and uncertainty. Contributions were from people inside and outside Government.

A background paper was produced for the seminar. This paper and the presentations delivered at the seminar are available on the PIU website (www.piu.gov.uk).

Summary of seminar debate

A synthesis of issues raised at the discussion is provided below. *The views that follow have not been attributed to individual participants, and do not reflect the views of government.*

Risk Management Theory

- A lot of the current practice in risk management is an attempt to codify organisational processes rather than manage risk. It is important to ensure that risk management strategies are not simply tick-box processes to ensure compliance but that they are embedded in the culture of the organisation.

- The seminar was told that one way of analysing risk is to place it into one of three main categories: risk perceived *directly* (such as the rapidly approaching car); risk perceived *through science* which could not otherwise be understood (such as cholera); and *virtual risk* where scientists either don't know or can't agree on the risk (such as global warming).

- The seminar was also told that individuals react to risk in different ways, and that one of the key determinants of an individual's attitude to risk is whether the risk is taken voluntarily or whether it is imposed by a third party. One way of characterising the different ways that individuals approach risk is by dividing people into 4 groups:

  - **the egalitarian**, who is a worried pessimist;
  - **the fatalist**, who feels powerless in the face of risk;
  - **the individualist**, who is a cheerful optimist;
  - **the hierarchist**, who assumes all risks can be managed.

- An alternative way of approaching issues around risk is to analyse and grade a particular risk by looking at its component parts, which include:

    - whether it is a strategic or tactical risk;
    - how near in the future it might occur;
    - how likely it is that it will occur;
    - whether it can be managed in any way;
    - whether it is an operational risk or a reputational risk (and hence the impact it will have on the organisation).

- It was noted that in some cases inactivity may be the biggest risk of all and that issues can arise because decisions are *not* taken, rather than the wrong decision being taken.

Risk Management Issues

- One of the keys to successful risk management is the clear identification of both organisational objectives and the appetite for risk that exists and is associated with these objectives. When organisations fail to do this the result is an internally focused, process driven organisation with little appreciation of new business opportunities or potential threats.

- Organisations need to manage the 3 Ps (performance, policy and perception) and the 3 Ts (truth, transparency and trust). The challenge is to manage these by moving to a position of "listening, learning and engaging" rather than "deciding, announcing and defending". To get reputation and trust, one requires engagement with the public through the "listening, learning and engaging" model. The Food Standards Agency, which holds frequent seminars and meetings to explain and engage with the public, is a good example of how this process can be managed.

- Whilst the Turnbull Report[1] into risk management and corporate governance in the private sector was well received, one of the negative consequences of the report is said to be the plethora of guidance and guidelines. This increase in guidance has gone hand in hand with increased litigation, in part due to the fact that more people are viewing matters through a fatalist's perspective.

- People are increasingly concerned about the risks in society and the impact it will have on their lifestyles. Further, increasing life spans will mean that society will become increasingly risk averse, as older people tend to exhibit a tendency to avoid risk.

- The international perspective shows we all live in a single, global information space and this is transforming how we need to deal with risk. There is an enhanced potential for outrage (described by the formula 'presentational risk = the hazard x the outrage') and the costs of getting it wrong can be significant. Many organisations have yet to adjust to this. Few protect themselves against reputational risk when entering joint ventures and consequently a strong brand can be damaged by the actions of a partner.

[1] Internal Control: Guidance for Directors on the Combined Code, Nigel Turnbull, The Institute of Chartered Accountants in England and Wales, September 1999, ISBN 1841520101

Comparisons between Public and Private Sector Risk Management

- On the issue of whether the public sector is more risk averse than the private sector, opinion at the seminar was divided. Some participants noted that the private sector tends to transfer as much risk as possible out of their core activities, an option that is not always available to the public sector. The public sector differs from the private sector in that:

  - it operates in a highly adversarial and transparent political system where blame can be used as a public method of attack;
  - decisions are sometimes influenced by short-term political imperatives;
  - government has overarching duties in relation to the lives, health and security of its citizens;
  - government has obligations to future generations and so should take a different view of environmental risks such as global warming;
  - Government has to take account of the interests of the public as a whole, whereas business can have a narrower focus and generally has the primary aim of increasing shareholder value against which all decisions can be justified.

- Private sector risk management practices are not necessarily the most suitable tools to manage risk in the public sector and it is essential to remember the role that the political framework plays in risk management. The Board of a large business is not elected by its customers and therefore private sector risk management tools may not always be appropriate.

Communication

- In a more developed media environment it is becoming increasingly hard for either the public or private sectors to operate secretively. Reputational risk management is becoming more important. But often reputational risk management is thought of as an internal process to decide what to tell the "people out there". The challenge for both sectors is to develop participatory forms of engagement as there are benefits to be gained from operating openly and in the public gaze. However, this necessitates an organisational culture which is willing to engage in open debate.

- Communication needs to be an integral part of the risk management process rather than a tick box process. The seminar was offered a set of principles for best practice communication which included:

  - being honest about scientific uncertainty;
  - separating decision-making from risk assessment;
  - assuming that the public has full right to know;
  - justifying actions in both the present and from the point of view of future generations;
  - paying particular attention to those most affected by decisions.

- Suggestions for what <u>not</u> to do when communicating with the public included:

- using misleading comparisons;
- publishing official advice before it is ready;
- making absolute statements about the safety of a process or product;
- drawing irrelevant conclusions which only serve to confuse the picture and raise suspicions;
- acting in an uncoordinated way; there should be a consistent line across the whole of the organisation even if that line is “we don’t know yet”.

- The view was expressed that the media will concentrate on victims and bad news and so there may be a tendency to view and report risk from the fatalist perception. The shift from narrative to iconic communication has reinforced this. The media, the seminar was told, tend to operate in a bi-polar world and in the short-term, but they have good gut instinct and sometimes this can be a very good way to measure a policy.

Lessons for Public and Private Sector Organisations

- Public sector organisations are becoming more competent at managing risk but are trusted less by the public than they were 20 years ago. However, there is an important role for the public sector as people are feeling less in control and are looking to Governments and legal systems more for reassurance and action. Governments need to understand that people want control in a world that is less controllable and need to do more to educate people about what risk management means.

- To re-establish trust with the public, Governments need to acknowledge risks where they exist. They need to convince the public that they are competent and this will involve reviewing internal management behaviours and processes, primarily:

  - the organisational management culture needs to be renewed and improved;
  - business processes (in particular management information systems but also human resources procedures) need to be sharpened – it was an observation that senior people in large organisations sometimes knew about little about what happened that day within their business;
  - industrial relations need to be improved, as this is an area which can be overlooked in the process of risk assessment.

- Government has the power to influence positive awareness of some risks where desirable, such as a communications policy around the risks of global warming which could persuade people to do something about it.

- There is a legitimate role for Governments to regulate, but they should do more to regulate only what is critical and regulators should replace an overemphasis on blame with a greater emphasis on learning. Regulators need to establish clear policy guidelines, clearly define the parameters of acceptable practice and consider themselves to be a partner in ensuring the success of the industry they are regulating.

- It is impossible to predict the future with any certainty but horizon scanning techniques, risk awareness and arrangements for current polices and responsibilities need to be brought closer together.

Strategic Futures and Risk Teams, PIU
January 2002