



## **Innovation, Value Creation and Opportunity Special Interest Group**

**9 April 2009**

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**“THE HOLY GRAIL?”  
THREATS + OPPORTUNITIES =  
ENTERPRISE RISK MANAGEMENT**

**A REVIEW OF OPPORTUNITY RISK  
MANAGEMENT APPROACHES**

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## EXECUTIVE SUMMARY

### Background to the project

As one of its goals, the IRM's Innovation, Value Creation and Opportunity Special Interest Group (IVCO SIG) seeks to develop and share knowledge within its focus areas<sup>1</sup>. Since its origin, the group has undertaken a number of projects<sup>2</sup> as a means to deliver this goal. For its 2008 project, the IVCO SIG members took up the challenge to:

- Identify current practices in “opportunity risk management”.
- Consider the benefits in following a new “opportunity risk” approach.
- Share best practice ideas in “opportunity risk”.

### ‘Opportunity Risk’

Opportunity risk management enables an organisation to use its risk management framework to actively manage upside risks, in addition to the more traditional focus on downside risks. This involves: (a) the identification of upside / opportunity risks, (b) identifying / determining what will enable these upside risks, and (c) ensuring they are in place and effective.

The definition of risk from the Risk Management Standard:

*“In all types of undertaking, there is the potential for events and consequences that constitute opportunities for benefit (upside) or threats to success (downside)... Risk Management is increasingly recognised as being concerned with both positive and negative aspects of risk”.*

### This report

This report summarises the work undertaken and presents the key findings. The scope of the exercise was to provide answers to four questions:

1. Why implement the change to an ‘Opportunity Risk’ approach?
2. How do you deliver ‘Opportunity Risk’ in practice?
3. What is the change process?
4. What are the benefits and measures of ‘Opportunity Risk’ management?

### Key findings

The primary benefits of using an opportunity risk management approach were identified as:

- Supports the delivery of strategic objectives.
- Provides better decision making.
- Improves engagement in risk management at all levels in the organisation
- Seeks to embed an ‘ERM’ process.

### Conclusion

All participants involved in the review noted they are on “a journey” and that there is still more to do. Feedback was very positive on how an opportunity risk approach helps revitalise the focus of senior management and the business as a whole on an enterprise-wide approach to risk management.

<sup>1</sup> See Appendix A.

<sup>2</sup> Report of past projects are available at [www.theirm.org](http://www.theirm.org).

The IRM's Innovation, Opportunity and Value Creation SIG, 2006, “Risk and Innovation – A Cause for Tension”  
The IRM's Innovation, Opportunity and Value Creation SIG, 2007, “Risk Management Survey”

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## Contributors

The IVCO SIG would like to thank those who were interviewed and the organisations who participated in the workshop at the 2008 IRM Forum. The names of these organisations are presented in Appendix C.

The IVCO SIG personnel who contributed to this review were:

- **Mark Boulton** – DNV
- **Andrew Bye** - Regis Mutual Management Limited
- **Louis Cooper** -Horwath Clark Whitehill LLP
- **Bill Mitchell** – The Carbon Trust
- **Clive Thompson** –Willis Limited
- **Nicolas Vioix** – Westfield Shoppingtown Limited

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*The findings are based on learning gained from the organisations interviewed and consulted. They do not necessarily reflect the opinions of the IRM or of the IVCO SIG.*

## 1

## About the review

The Institute of Risk Management ('IRM') Innovation, Value Creation and Opportunity Special Interest Group ('IVCO SIG') undertook a review of risk managers who include 'Opportunity Risk' within their Enterprise Risk Management process. The main issues from the interview process were followed up during a workshop at the IRM 2008 Risk Forum. The report is based on the key findings from both activities.

### Objectives

The objectives of the project were:

1. To establish existing "good practice" with leading practitioners
2. To identify and share examples of risk management innovation
3. To promote the work of the IVCO SIG and attract new members
4. To investigate any other areas for future research by the Group
5. To deliver valuable data to the IRM for further analysis

### Approach

This project represents a follow up of the IVCO SIG Survey of IRM members conducted in 2007-8, to establish which risk management practices were considered innovative and which areas required further development. In that survey, providing a more integrated and enterprise-wide approach to the discipline was highlighted as an area in need of innovation. A key finding of the survey was that there is increased focus on the identification and management of 'Opportunity Risk' but activities tended to be unstructured and informal. 50% of the survey respondents noted that 'upside risk' was only covered on an ad hoc basis.

A small number of participants were identified who had applied the methodology of looking at 'opportunities' in addition to threats in their organisations. Heads of risk were approached and, if agreed, an interview was undertaken, using a structured set of questions (see Appendix B for the set of questions used).

The review was conducted from early June to mid-August 2008, by members of the SIG. The findings were analysed in further meetings and the key themes were used in an interactive workshop held at the 2008 IRM Risk Forum.

### Profile of participants

The participants were leading risk managers from the public and private sectors of UK Industry and a summary of organisations taking part in both the interviews and workshop is set out in Appendix C.

### The framework

The interview was conducted using a set of 10 questions. For the Risk Forum review and this report, the feedback from the questions has been consolidated into four main headings (see the Executive Summary).

## Foreword

### IRM

The IRM promotes excellence in risk management through the delivery of relevant practical education and training. It is an 'educational hub' for risk management, bringing together many separate risk disciplines.

### The Risk Management Standard

The Risk Management Standard is a concisely written 12 page guide, which looks at risk 'top down', in a way that is accessible to all, rather than to specialists alone. It draws on experiences of practitioners and is designed to provide counsel on best practice for those running real businesses. The Standard has been used as the framework for this review.

### IRM Special Interest Groups

The IRM is committed to promoting the work undertaken by its Special Interest Groups ('SIGs'). The Innovation, Value Creation and Opportunity SIG is one of the most active SIGs as demonstrated by the range of seminars and workshops that are run on a regular basis.

### Opportunity Risk review

The Innovation, Value Creation and Opportunity SIG has undertaken a review of the current practices in the management of 'Opportunity Risk'. This report presents insight that should be of value to all risk managers and it should help them in determining:

- (a) How best to start managing 'Opportunity Risk'.
- (b) How this approach can create value.
- (c) What challenges may have to be faced along the way.
- (d) Examples of the best practices that can be achieved.

Risk management is very much a dynamic discipline and it is important that it continues to evolve and develop. A focus on 'Opportunity Risk' management and the value it brings is key to this.

### Steve Fowler

*Chief Executive Officer*

**Institute of Risk Management**

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## Key findings

The ‘Opportunity Risk’ review represents feedback and experience from a wide range of organisations (see Appendix C) and some of the key issues raised are summarised below. Further background and practical insight is set out in the sections that follow.

AREA	KEY ISSUES
<p><b>Why implement the change to an ‘Opportunity Risk’ approach?</b></p>	<ol style="list-style-type: none"> <li>1. One of the key drivers for adopting this approach has been to further engage businesses in risk management - ‘Opportunity Risk’ represents a forward looking and positive progression in the risk cycle.</li> <li>2. Risk management teams have been successful in getting the buy-in of senior executives who support the shift to a focused and strategic assessment of ‘opportunities’, rather than just the traditional focus on ‘threats’.</li> </ol>
<p><b>How do you deliver ‘Opportunity Risk’ in practice?</b></p>	<ol style="list-style-type: none"> <li>3. Delivery has been through better face to face time with the business, quite often through a ‘workshop’ or a similar process - to present and promote the essential concepts and to provide a reassessment of the overall risk management framework.</li> <li>4. Use has been made of new techniques, both qualitative and quantitative, including a return to more strategically orientated tools such as ‘SWOT’ analysis ‘Opportunities’, represent the counter balance to ‘Threats’, and are more actively identified and taken forward for further assessment.</li> </ol>
<p><b>What is the change process?</b></p>	<ol style="list-style-type: none"> <li>5. The change process has been led by risk management teams with the full support of key executives and/or the risk committee. The approach adopted has been fairly direct.</li> <li>6. Engagement has been achieved by getting business units to be fully involved or to ‘do’ the new approach, with follow up and individual coaching where required.</li> </ol>
<p><b>What are the benefits and measures of ‘Opportunity Risk’ management?</b></p>	<ol style="list-style-type: none"> <li>7. The benefits come from better engagement of the business – ‘opportunities’ can be more closely aligned with strategic objectives, especially in areas such as sales and marketing and business development.</li> <li>8. Whilst at this stage there appears to be a general lack of actual measurement techniques, there is consensus regarding the positive impact on staff and the potential to enhance business reputation from using a more comprehensive and inclusive enterprise-wide (‘ERM’) process.</li> </ol>

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## Why implement the change to an ‘Opportunity Risk’ approach?

Traditionally risk management has focused on “what can go wrong” and threats to the business; ‘opportunity risk’ as a concept has not been given as much attention. Increasingly leading organisations are using a focus on ‘opportunity risk’ to identify and assess more strategic business risks.

### Summary of feedback from the review participants

- ▶ The new approach is seen as a way of further engaging with the business – ‘threats’ to the business are fairly well defined in the risk register. The move to a more ‘positive’ focus on risk is seen as a sign of progression.
- ▶ ‘Opportunity Risk’ has been instrumental in helping to refocus the approach on a more forward looking and strategically aligned risk identification, management and monitoring process.
- ▶ The change to an opportunity risk approach provides a better fit with the language of our senior managers. By embracing this, we can talk the same language and get much better buy-in to the risk management process.
- ▶ The process is more of an ‘evolution’ building on other work - the approach to risk management in the group is quite sophisticated. The approach is used more on the identification and management of financial risks rather than operational, which reflects the financial characteristics of our business.
- ▶ The process has been updated to help improve strategic decision-making as well as enhance the business risk profile and the understanding of ‘risk appetite’, both at business unit level and with the roll-out of key projects.

### Key issues raised during the IRM Risk Forum

- Attention to ‘Opportunity Risk’ is used as an approach to ensure critical new ideas and challenges are given due consideration, rather than just focusing on the lower-level day to day operational issues.
- The move to ‘Opportunity Risk’ helps to broaden the perception of risk and supports a more dynamic, entrepreneurial business culture – especially involving areas such as sales and marketing.
- The change in approach seeks to challenge existing mindsets and helps to improve decision-making, whilst also aligning the risk management process with the business planning process.

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## How do you deliver ‘Opportunity Risk’ in practice?

The delivery of a new approach assumes a step change in the risk identification, assessment and management process. This should represent a positive development in the overall approach and be recognised as a step forward.

### Summary of feedback from the review participants

- ▶ To some degree, it is about how the risks are identified, either positively or negatively. There are three things people should do: 1. Recognise uncertainty; 2. Use probabilistic thinking - to both understand and make better decisions; 3. Separate decisions from outcomes – your need to recognise that a bad outcome does not necessarily mean a bad decision or vice versa.
- ▶ The challenge has been laid down to consider the “right risks”, focusing on achieving the strategic objective of each facet of the organisation. The approach may be more qualitative and is best seen in the investment appraisal process where “the risk of not doing” a particular activity is actively evaluated. More emphasis is given to looking at the potential upside - not just taking a monetary view when assessing an opportunity.
- ▶ The approach has been presented in executive workshops and through promotion by the risk committee. Traditional ‘SWOT’ analysis has been used as a simple but effective mechanism to generate new ideas and demonstrate the relationship between ‘threats’ and ‘opportunities’ with the link to achieving strategic objectives.
- ▶ The business is encouraged to look at risk management as an activity that is: forward-looking; covering all areas; reflecting a dynamic profile; and appreciating the impact of a range of inter-dependencies. Risk reporting has moved from ‘base-line’ risk reports to an ‘outlook’ risk report. This approach helps to stimulate people in the business, as it is critical to retain and develop good people. More focus is given to ‘risk themes’ that reflect the diversity of issues faced by the business.

### Key issues raised during the IRM Risk Forum

- Workshops tend to be used to engage all stakeholders and simple steps such as ‘funnel’ techniques and diagrams are used to help prioritise actions and focus on the benefits.
- It is important to embed this broader type of risk identification into existing processes and use cost/benefit analysis to promote both the concept and examples of early success factors.
- Buy-in comes from “keeping it simple” so everyone knows the most significant opportunities and threats. It needs to fit with the organisation’s culture, experience and systems.

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## What is the change process?

**In order for a 'change process' to be a success it requires board-level sponsorship and enterprise-wide acceptance and engagement. The availability of resources is also a key factor, as is an understanding of any potential barriers – both internal and external.**

### Summary of feedback from the review participants

- ▶ The risk manager and corporate risk management group have been instrumental in driving the new approach and have had the full support of the executive board. It has also been linked to the 'risk appetite' for the business, on the basis of promoting a more integrated top-down view.
- ▶ Engagement was achieved in the doing – adopting a very direct approach. Demonstrating the importance led to an easier sell – there was no need to ask if it was a good idea.
- ▶ Engagement has been achieved by one-to-one meetings with heads of department, with the risk manager explaining the new approach. This has been followed by workshops to re-enforce the methodology and to coach teams. The support of the risk committee has helped to sell the idea, with good use of positive 'sound bites' and examples.
- ▶ Use has been made of: 'Interactive' workshops which have been a success; voting technology has helped to create a dynamic environment to encourage new ideas. Our risk software package is used to maintain the risk registers and risk data. The new approach has opened up the potential to create and develop new systems that are geared to reporting and presenting both threats and opportunities.

### Key issues raised during the IRM Risk Forum

- 'Risk champions' in the business have been used to good effect, supported by a well defined communication and education plan.
- Some degree of acceptance and buy-in has been achieved by promoting the ethos that "this is the way we now do things"
- Bespoke development work on software systems has helped establish a risk register that accommodates both threats and opportunities, although reporting of each remains separate.
- Use has been made of: (a) the 'Risk Intranet' (to communicate and provide a consistent view), (b) the new risk training material (to promote key messages); and (c) in-house risk management software (to capture and prioritise risk data).

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## What are the benefits and measures of 'Opportunity Risk' management?

A clear demonstration and measurement of the benefits of a new process help to promote the on-going success of the approach. There is also an expectation of a change in 'risk appetite', through better understanding of enterprise-wide risk management (ERM).

### Summary of feedback from the review participants

- ▶ Benefits of introducing opportunity risk management have generally not been measured, although feedback from the roll-out process has been obtained – which is all positive.
- ▶ People are now getting excited about risk. It is an open and transparent approach and provides a clear framework for us to debate and communicate either objections or set clear targets. We want to use it to allocate budgets better and in future we can develop it in a more targeted fashion. What it does produce is a very clear action plan with owners assigned to complete them within specified periods so accountability is much clearer.
- ▶ The executive team is very encouraged by the approach and has given it their full support. They want business managers to “think differently” and not just adopt a “business as usual” mentality. The approach is also seen as a way to help close the gap between the ‘top-down’ and the ‘bottom-up’ perspectives on risk management.
- ▶ Risk management is now more interesting for senior management. There is better engagement by the business, which in turn helps to embed the process. There is more emphasis on things that are important, that staff need to get right first time.
- ▶ The process and approach has helped to better define our risk appetite, with closer alignment to strategic goals.

### Key issues raised during the IRM Risk Forum

- The key benefit is the promotion of a ‘step-change’, making people in the business balance both threat with opportunity. Measurement of the change has not been documented – it is more what individuals get out of the process as it is recognised as ‘good management practice’.
- There are potentially a number of business benefits from cost savings achieved, increased profitability and staff retention, as well as the intangible factors such as the enhancement of an organisation’s reputation.
- Certain aspects of the rollout represented work-in-progress. Consequently a full appreciation of the impact on risk appetite in the business has still to be assessed.

# APPENDIX



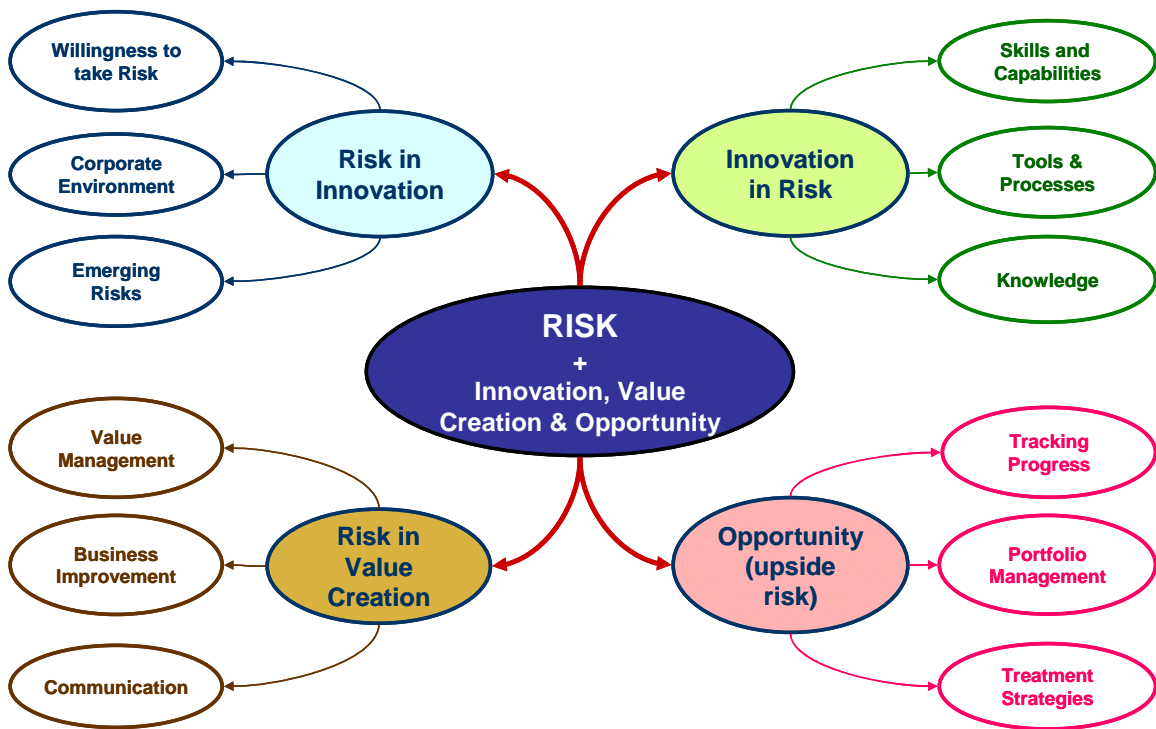
# Innovation, Value Creation and Opportunity Special Interest Group

## IRM Special Interest Groups

The IRM runs a number of Special Interest Groups ('SIGs'). The aim of these SIGs is to enable IRM members with specific interests to work together to share and develop knowledge.

### Scope and focus of activity

The aim of the SIG is to share and develop knowledge on Innovation, Value Creation and Opportunity and the relationship with Risk Management. The focus of activity is set out in the diagram below, and shows the four primary areas of concentration.



### Working together

The SIG meets on a regular basis to discuss the area of interest and to undertake joint work. Knowledge and learning is shared through regular short seminars, contributions to the annual IRM Risk Forum, articles in InfoRM magazine and publications on the IRM website: [www.theirm.org](http://www.theirm.org).

**B**

**Questions used in the interviews**

1. What were the reasons you decided to follow a new approach to risk (i.e. to actively manage both downside risk and opportunity)?
2. How do you go about assessing and managing both threat and opportunity risks?
3. What are the differences / changes to what you did previously?
4. What benefits have you achieved by taking this new approach?
5. Have you measured these and if so how (what is the before / after data)?
6. Who / which group made the decision to promote this approach to considering upside as well as downside risk?
7. Did you engage the business units in the process of implementing this new approach, and if so how did you set about this?
8. What barriers, if any, did you find to implementing this approach?
9. Has your risk appetite altered significantly since implementing the new approach and if so in what way and what has been the impact on your risk financing or wider business strategy?
10. Have you used any form of technology to facilitate, manage or communicate the process and if so what are the key features of this

Allocation of questions to the main headings used in the feedback and review process:

Heading	Question
1. Why implement the change to an 'Opportunity Risk' approach?	Q1
2. How do you deliver 'Opportunity Risk' in practice?	Q2, Q3
3. What is the change process?	Q6, Q7, Q8, Q10
4. What are the benefits and measures of 'Opportunity Risk' management?	Q4, Q5, Q6



## Organisations taking part in the Review

### Interviews

1. Balfour Beatty Management
2. BBC
3. DNV
4. First Rate Exchange Services
5. Prudential
6. Rio Tinto
7. Warwickshire County Council
8. Westfield

### IRM Forum - Workshop participants

1. Alliance
2. Anglo Coal Marketing
3. BBC Occupational Risk
4. BDO Stoy Hayward
5. BG Group
6. Department of Works and Pensions
7. Docklands Light Railway
8. EC Harris LLP
9. EFD Energy
10. FGM Underwriting Agencies
11. Fortum Oyi
12. Imperial College
13. JLT Risk Consulting
14. Lloyd's Register
15. Mencap
16. PricewaterhouseCoopers
17. Severn Trent Water
18. Telenor ASA
19. WorleyParsons
20. The Carbon Trust