

Exercise:

*"There are **known knowns**. There are things we know that we know.
There are **known unknowns**. That is to say there are things that we now know we don't know.
But there are also **unknown unknowns**. There are things we do not know we don't know"*

- Donald Rumsfeld.

Question: Do you think that the 'unknowns' in this phrase is a good example of 'risk blindness' ...Yes or No?

Background

"Risk Blindness"

- Not defined in ISO 31000:2009.
- Not defined in ISO GUIDE 73:2009.
- Term made popular in a July 2011 report titled *ROADS TO RUIN, A STUDY OF MAJOR RISK EVENTS: THEIR ORIGINS, IMPACT AND IMPLICATIONS*.
- Study included 18 high profile collapses.
- Collapses don't just happen.
- Boards can be blinded to risks.
- 7 risk factors emerged.



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Background

7 major underlying risk factors...

- Inadequate board skills and inability of Non Executive Directors (NED's) to exercise control.
- Inadequate leadership on ethos and culture.
- Defective internal communication and information flow.
- Organisational complexity and change.
- Inappropriate incentives, both implicit and explicit.
- 'Glass Ceiling' effects that prevent risk managers from addressing risks emanating from top echelons.
- Board risk blindness.**

Source: Cass Business School/Airmic (*Roads to Ruin: A study of major risk events: their origins, impact and implications*)

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What is risk blindness?

Risk Blindness is...

- When an organisation fails to recognise and engage with the risks inherent in the business to the same degree as the organisation engages with reward and opportunities.
- Mismatch in the level of effort (thinking, communicating, documenting) between seeking and realising opportunities and managing risks.



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What is risk blindness?



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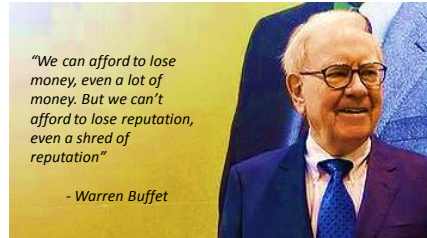
Blind to reputational risk

- Board fails to identify and guard against threats to the organisation's reputation and 'licence to operate'.
- Boards take the 'status quo' and reputation for granted.
- E.g. Northern Rock Vs. Société Générale.
- Causes - not understanding the fundamentals of the business, stakeholder needs and poor crisis management.
- Treatments - Boards should ensure that the strategy they set can deal with the most severe threats to their reputation.

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Blind to reputational risk



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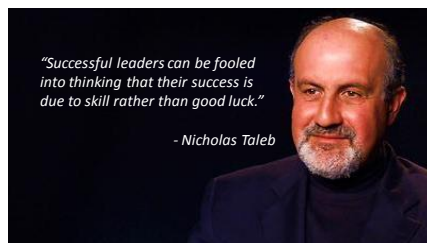
Blind to foundations of success

- When things are going well, there is a tendency to ask fewer questions than when things are changing or going wrong.
- E.g. Enron
- Causes - not asking tough questions, not challenging good results, overconfidence.
- Treatments - well balanced board with a range of skills, Non Executive Directors.

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Blind to foundations of success



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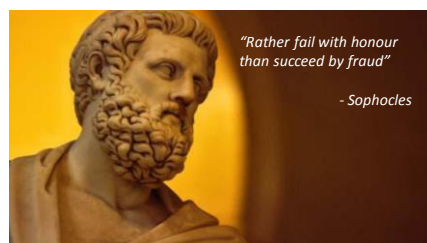
Blind to management conduct

- Risk can emanate from anyone inside or outside the organisation, including its top management.
- Examples - Independent Insurance, Enron, Worldcom, Barings Bank.
- Causes - handpicked people, performance incentives, inadequate internal controls, collusion.
- Treatments - recruitment processes, effective fraud and corruption management program, lead by example, whistleblowing, investigations, appropriate bonus systems.

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Blind to management conduct



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Blind risk taking

- If the board does not set risk appetite, it is not directing the nature or scale of risks taken by the business.
- E.g. HIH.
- Causes and main challenges - WIP, who's risk appetite is it?, qualitative vs quantitative, multiple dimensions, embedding and monitoring.
- Treatments – develop an appropriate risk appetite statement.

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Blind risk taking



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Blind to environment risks

- An organisations exposure to risks will change over time.
- E.g. Arthur Anderson, IBM, Olivetti, Harvey Norman
- Causes - inadequate monitoring of environmental conditions, failing to assess changes correctly, failing to change
- Treatments - Environmental scanning, correct assessment, implementation.

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Blind to environment risks



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Blind crisis management

- In a crisis, good judgement and speed of reaction are important.
- E.g. Airbus Industries, Northern Rock Vs. Taco Bell, BHP.
- Causes - no plan, slow response, saying nothing.
- Treatments - have a plan, practice the plan, update the plan, respond early, communicate.

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Blind crisis management



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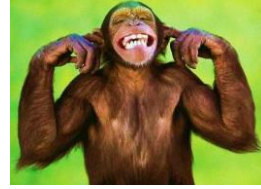
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Quiz 1:

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Final thought



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