

The Concept of Risk Appetite, and its application in an HE context

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Session Overview

A: The Concept of Risk Appetite

- What we mean by risk appetite
- Why grapple with this concept?

B: How to express it - Variety of Approaches:

- Narrative statement: Case study – London Met
- Objective Linkage: Case study - Sheffield Hallam
- Risk Type: Case study – London South Bank University
- Tolerance Thresholds: Case study - Durham Uni

C: Discussion in groups

A1: What is risk appetite?

The objective of developing a risk appetite is to define the level and nature of risk that an organisation is willing to take in order to deliver its strategic objectives.

The British Standard BS31100 and IRM define risk appetite as

‘the amount and type of risk that an organisation is prepared to seek, accept or tolerate’.

A1: appetite vs attitude, & why now?

Video: The Risk Doctor

<https://youtu.be/eRxb9JgcQZs?t=4m16s>

A2: Benefits of defining risk appetite

- More conscious and consistent decision-making about taking (or avoiding) risks
- Improved strategic planning by identifying which risks to take and which to avoid
- Decision makers are empowered to take decisions consistent with the defined risk appetite
- The fostering of a more risk aware culture
- Enhanced corporate governance, which helps to ensure stakeholders are satisfied

Case Study B1: Narrative Statement

Example broad-brush risk appetite statement

“The University wishes to take appropriate risks to achieve a step change across its core areas of activity: learning and teaching and the student experience, research and business and engagement and operational effectiveness, but will of course adopt a more cautious or risk-averse attitude in matters of legislative and regulatory compliance to reduce exposures to the University’s reputation, its people and its other resources and assets.”

B1 – alternative version

Example of a differential approach risk appetite statement

“Our overall appetite for risk-taking where **people and culture** could be affected is very low to medium. E.g:

1) We do not accept risk-taking where we could fail to discharge our duty of care responsibilities or irreparably damage the staff experience (very low risk appetite).

2) We do expect staff to be prepared to take on new academic and professional challenges, and we aim to recruit, retain and develop people who thrive in an innovative environment (medium risk appetite).”

The University's Risk Appetite is evolving to become a practical, applied management tool by:

- Defining risk appetite in terms of our **strategic** ambitions i.e. how much risk we should expect, accept/tolerate or be exposed to, to achieve our objectives.
- Reflecting **all areas of the organisation** whether they are involved in service delivery, complying with regulatory requirements or achieving strategic ambitions.
- Expressing risk appetite as a range, representing the boundaries for risk-taking within which judgement should be exercised. This is to reflect that almost all of our activities and decisions require a balanced assessment of both **risk and reward**.

A further development that is being considered is whether to add explicit financial parameters to the risk appetite.

Element	Risk appetite (1: low)				
	1	2	3	4	5
Compliance and regulation	1				
Quality, standards, service delivery and performance	1	2			
Innovation, development and growth			3	4	
Size, shape and impact		2	3	4	
Financial sustainability	1	2	3		
Reputation and profile	1	2	3	4	

Examples of boundaries: The overall appetite for risk-taking in activities ...

... with a **compliance** element is very low. A failure to meet legal, propriety, regulatory, financial, contractual or accountability requirements or discharge our duty of care responsibilities could irreparably damage the staff and student experiences and the resulting sanctions or negative publicity could be highly damaging.

... involving **innovation** is medium to high. We expect some measured risk-taking with development and change activities because our progress depends on it but we accept that accurately evaluating risk versus reward is not easy due to the uncertainty of outcomes.

... that could affect our **reputation** is very low to high. Our appetite covers a broad range, depending whether we are managing a threat or an opportunity. We depend on a positive academic and professional reputation to advance our position in the HE sector and attract high calibre students and staff and income.

The University's Risk Appetite is expressed against risk types.

Development stages:

- Categorisation of Risk types
- Development of Risk appetite matrix
- Survey of Executive, and Members of Board of Governors
- Executive review & development of proposal
- Review by Audit Committee
- Recommendation to the Board

Risk Perceptions.

Academic delivery:

	Governors	Executive
Current Approach	<p>Averse 0</p> <p>Minimal 2 (18.2%)</p> <p>Cautious 5 (45.5%)</p> <p>Open 2 (18.2%)</p> <p>Seek 2 (18.2%)</p> <p>Mature 0</p>	<p>Averse 0</p> <p>Minimal 0</p> <p>Cautious 2 (40%)</p> <p>Open 2 (40%)</p> <p>Seek 1 (20%)</p> <p>Mature 0</p>
Forward intent	<p>Averse 0</p> <p>Minimal 0</p> <p>Cautious 3 (27.3%)</p> <p>Open 3 (27.3%)</p> <p>Seek 4 (36.4%)</p> <p>Mature 1 (9.1%)</p>	<p>Averse 0</p> <p>Minimal 0</p> <p>Cautious 0</p> <p>Open 1 (20%)</p> <p>Seek 4 (80%)</p> <p>Mature 0</p>
Comments	<p>LSBU needs to be ahead of its peers in developing its teaching and courses.</p> <p>The world is changing, if we are too cautious we will be left behind</p> <p>In order to be innovative in delivery it is necessary to be open to some new and less established ideas for delivery and support.</p> <p>Answers reflect limited Board visibility of extent of risk-taking and risk-management in academic matters.</p> <p>successful delivery of change and strategy should provide confidence for increased risk</p>	<p>Combination of history (of being 'told' what to do), and lack of leadership within Schools (i.e. below Dean level).</p> <p>Fundamental to everything, without change here we cannot deliver elsewhere.</p> <p>We have to accept that delivering the outcomes in the corporate strategy will require real change and a much more open/ seeking attitude toward risk.</p>

Risk Perceptions.

Other Survey Comments:

It will be interesting to see how the reappointed internal auditors work within the new strategy.

The Board itself needs to manage risk more actively

No

Our risk appetite should dictate strategy and the agendas for Board meetings. It is of fundamental importance to agree our risk tolerances as this drives the business of the Board.

I'm not sure we have yet arrived at a sound methodology for assessing risk appetite. For example I don't think the column headings for the above questions are all like in character. For example, cautions and mature are not exclusive to each other. In addition, some of the language is loaded and unclear. Who dares say we do not want to be mature?

I feel we need a bit more discussion on what we are trying to achieve here. I might suggest we try to write a short statement of our attitude to risk. I suspect we might state that we cannot put the whole institution at risk. But we would be prepared to take small scale but possibly substantial risks in seeking to improve our long term performance. We would acknowledge that while we cannot eliminate risk, we would want to ensure we had taken the risks to an irreducible minimum before proceeding with action (the irreducible minimum may still be quite high). If we are running many small experiments, we should be tolerant of failure - provided we had minimised the risks before we started.

1

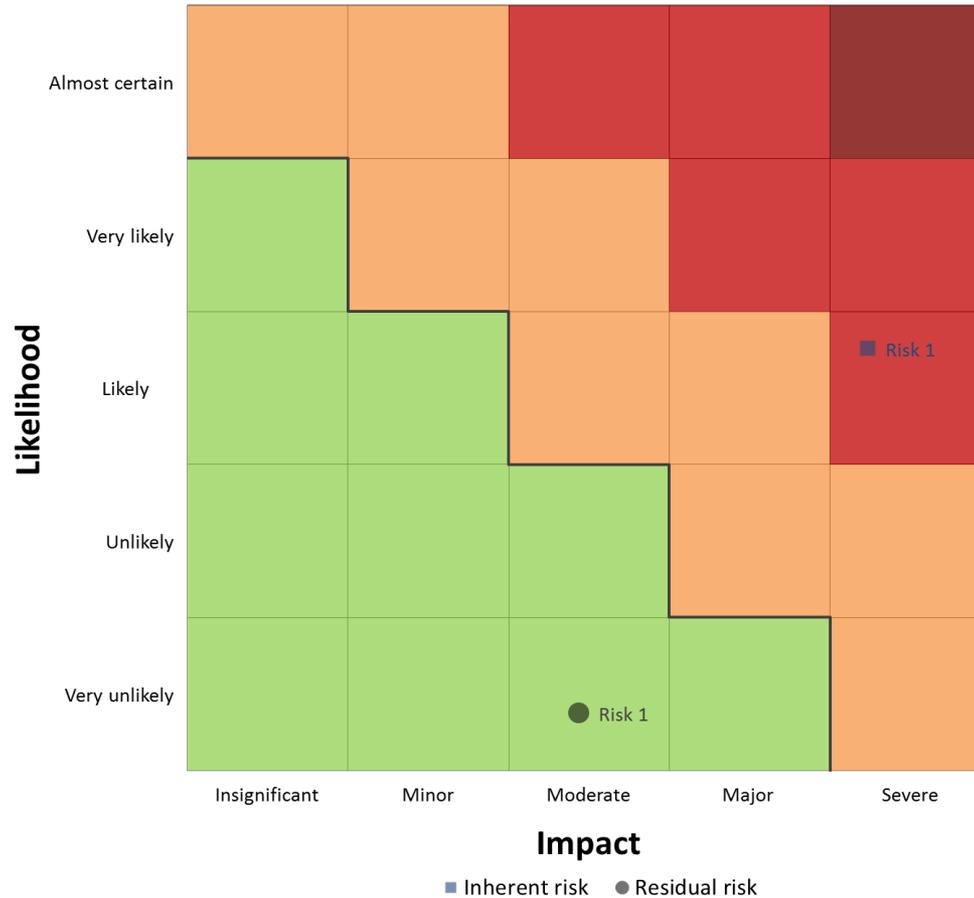


Resultant Risk Appetite Matrix:

	Avoid / Averse Avoidance of risk and uncertainty is a Key Organisational objective	Minimal (as little as reasonably possible) Preference for ultra-safe delivery options that have a low degree of inherent risk and only for limited reward potential	Cautious Preference for safe delivery options that have a low degree of inherent risk & may only have limited potential for reward	Open Willing to consider all potential delivery options and choose while also providing an acceptable level of reward (and VfM)	Seek Eager to be innovative and to choose options offering potentially higher business rewards (despite greater inherent risk)	Mature Confident in setting high levels of risk appetite because controls, forward scanning and responsiveness systems are robust
Financial	Avoidance of financial loss is a key objective.	Only prepared to accept the possibility of very limited financial loss if essential.	Prepared to accept possibility of some limited financial loss. Resources generally restricted to existing commitments.	Prepared to invest for return and minimise the possibility of financial loss by managing the risks to a tolerable level. Resources allocated in order to capitalise on opportunities.	Investing for the best possible return and accept the possibility of financial loss (with controls may in place). Resources allocated without firm guarantee of return – 'investment capital' type	Consistently focused on the best possible return for stakeholders. Resources allocated in 'social capital' with confidence that process is a return in itself.
Legal Compliance	Play safe; avoid anything which could be challenged, even unsuccessfully.	Want to be very sure we would win any challenge. Similar situations elsewhere have not breached	Limited tolerance for sticking our neck out. Want to be reasonably sure we would win any challenge.	Challenge would be problematic but we are likely to win it and the gain will outweigh the adverse consequences.	Chances of losing any challenge are real and consequences would be significant. A win would be a great coup.	Consistently pushing back on regulatory burden. Front foot approach informs better regulation.
Academic Activity	Defensive approach to objectives – aim to maintain or protect, rather than innovate. Priority for tight management controls & limited devolved authority. General avoidance of systems/ technology developments.	Innovations always avoided unless essential or commonplace elsewhere. Decision making authority held by senior management. Only essential systems / technology developments to protect current operations.	Tendency to stick to the status quo, innovations in practice avoided unless really necessary. Decision making authority generally held by senior management. Systems / technology developments limited to improvements to protection of current operations.	Innovation supported, with demonstration of commensurate improvements in management control. Systems / technology developments used routinely to enable operational delivery. Responsibility for non- critical decisions may be devolved.	Innovation pursued – desire to 'break the mould' and challenge current working practices. New technologies viewed as a key enabler of operational delivery. High levels of devolved authority – management by trust rather than tight control.	Innovation the priority – consistently 'breaking the mould' and challenging current working practices. Investment in new technologies as catalyst for operational delivery. Devolved authority – management by trust rather than tight control is standard practice.
Reputation	No tolerance for any decisions that could lead to scrutiny of, or indeed attention to, the organisation. External interest in the organisation viewed with concern.	Tolerance for risk taking limited to those events where there is no chance of any significant repercussion for the organisation. Senior management distance themselves from chance of exposure to	Tolerance for risk taking limited to those events where there is little chance of any significant repercussion for the organisation should there be a failure.	Appetite to take decisions with potential to expose the organisation to additional scrutiny/interest. Prospective management of organisation's reputation.	Willingness to take decisions that are likely to bring scrutiny of the organisation but where potential benefits outweigh the risks. New ideas seen	Track record and investment in communications has built confidence by public, press and politicians that organisation will take the difficult decisions for the right reasons with benefits

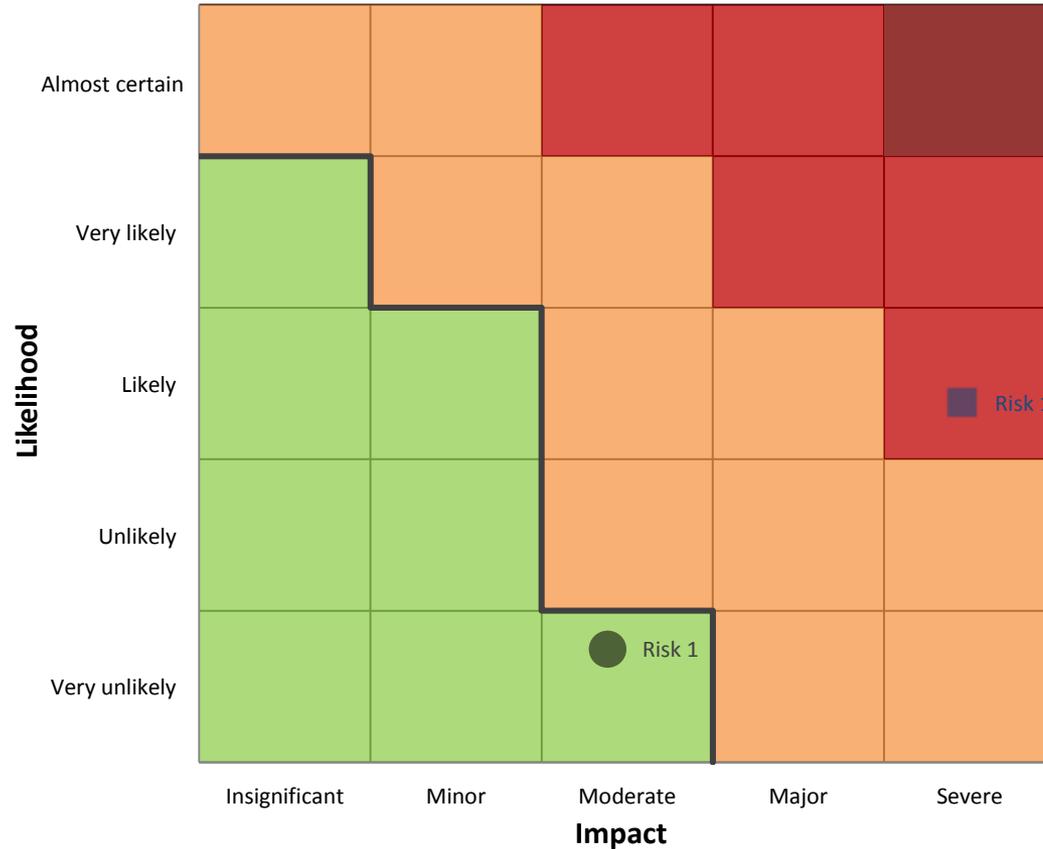
Case study B4 : Risk Tolerance Thresholds

Default



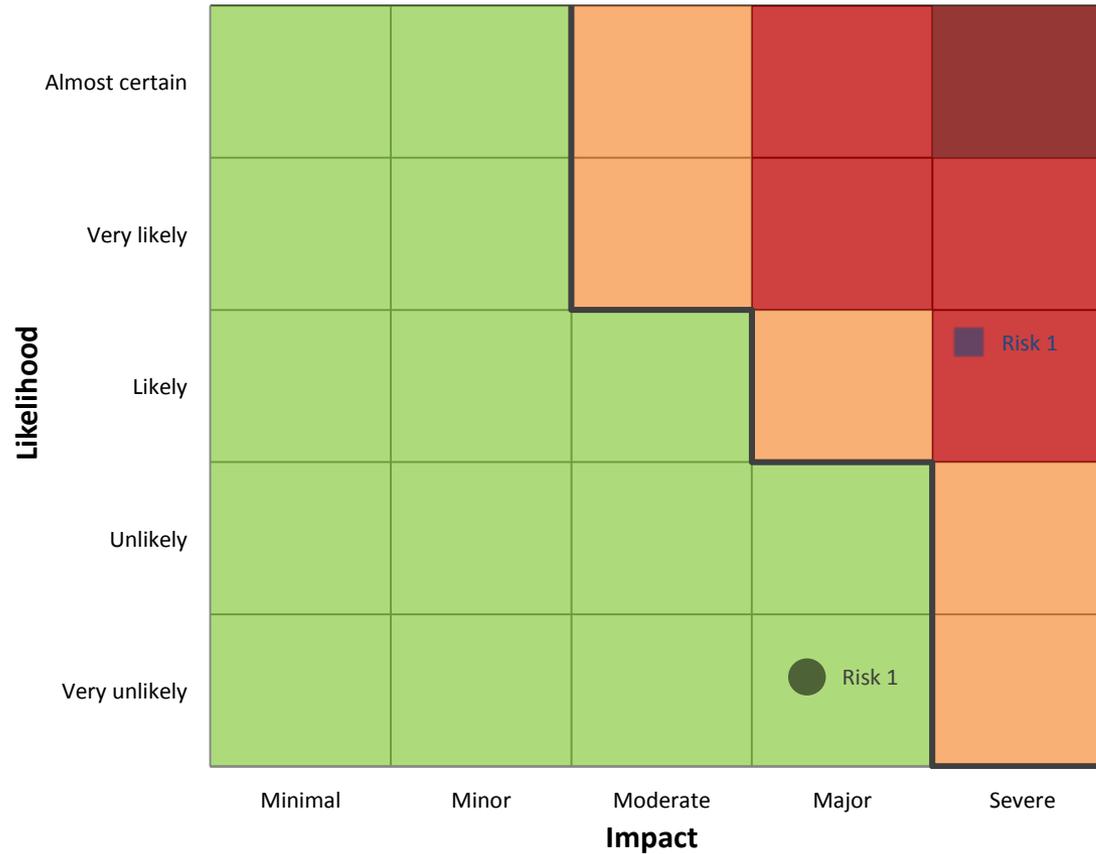
Case study: Durham

Averse



Case study: Durham

Tolerant



Case study: Durham

Pros and Cons

Risk appetite is embedded in the strategic risk register...so cannot be avoided

BUT

as it is embedded it is less visible, so doesn't facilitate dialogue

Group Discussions:

- Pros and cons of each approach?
- How to integrate with other organisational process (Bring to life)?
- Any examples where appetite is used to influence decision-making?

Group Discussion: Feedback
