Ask the Right Questions
– What Problem (risk) Are You Trying to Solve?

Identify the Problem

“If I had only one hour to save the world I would spend fifty-five minutes defining the problem and only five minutes finding the solution.”

Albert Einstein
Risk Assessment – What is Risk?

• What is Risk?
  – Risk is **Uncertainty** About Future Events

• Kinds of Risks
  – Mission
  – Loss of Property, Money, Life
  – Internal – Things we can generally control
    • Kinds of Controls
      – Preventive
      – Directive
  – External – Things we generally can’t control
  – Pure or Absolute Risk
    • Only bad things can happen
  – Speculative or Relative Risk
    • Bad or Good Things Can Happen (risk vs. reward)
  – How we respond is essential!

• Characteristics
  – There is no absolute assurance
  – Controls should not cost more then their benefit
  – Assess Probability and Significance AND Cost vs. Value
  – Known vs. Unknown
  – Cause and Effect
The Problem: Misplaced Focus

- Too much emphasis on the wrong controls without assessing relative risk/cost relationship (opportunity cost is a risk)
- Too little focus on the control environment
- Too little focus on data analysis/synthesis
- Too much emphasis on the wrong objectives
  - Time, policies vs. productivity/performance
  - Paperwork/process vs. underlying cause
  - Past vs. future (looking out the rear-view mirror instead of the windshield)
Flaws In Risk Assessment
Green Book and A-123

• Look Carefully at Risk Assessment
  – Internal Risk Assessment Is Mostly:
    • Transactional
    • Operational/Processes
    • Retrospective
    • Efficiency and Economy Oriented
    • Cost of Control (resources) Vs. Losses
  – External Risks Are About Mission Effectiveness
    • Influenced by Factors Outside of Organizational Control
    • In a Changing World – Must be Prospective
    • Leverages Greater Losses or Rewards (opportunity)
    • Can’t Be Controlled but Reaction can Be Managed
Internal Risk Assessment Vs. External Risk Assessment

• Internal Risk Assessment Follows a Structured Process – Deals mostly with Known Risks and a Retrospective Approach (we know what we are trying to control – and how to do it – *check lists*)

• External Risk Assessment Requires Abstract and Critical Thinking – Deals Mostly with Unknown Risk – What We Don’t Know – Prospective Approach (we can’t control it – so we either become victim, or anticipate and change to adapt)
NEWTON’S LAWS OF MOTION

Affect and Effect of External Force

“Every object persists in its state of rest, or of uniform motion in a straight line, unless it is compelled to change that state by forces impressed on it.”

“Force is equal to the change in momentum (mv) per change in time. For constant mass, force equals mass times acceleration.” F = m a “For every action, there is an equal and opposite re-action.”

All organizations are subject to external forces characterized as risks of loss/gains. (opportunities are risks not taken)
The Forces at Work: Response is Critical
Transformation from the “Burning Platform”

- **The “Status Quo” is Not an Option:**
  “We face large and growing structural deficits largely due to known demographic trends, infrastructure and rising health” care costs.  
  (David Walker, former Comptroller General)

- **Objective:** To create a more positive future by maximizing value and mitigating risk within current and expected resource levels.
  - Discovery of root causes, external forces of change and implications
  - Identify new knowledge, critical changes as risks and opportunities – breaking away from established “dogma” – of what is known and expected
  - The future is not a linear extension of the past!

- Somebody has to do something!! – YOU!
Failure in the Planning and Implementing World

• **Foresight Failure**
  - We fail to anticipate a problem/risk/opportunity
  - When a problem arrives, we fail to perceive it
    *(our reference points are only what we already know)*

• **Management Failure**
  - After we perceive the problem/risks, we may fail to address it - *change is very difficult*
  - We may address it, but use the wrong, or outdated techniques, and fail to solve it
    *(David Walker, former Comptroller General)*
“WE CANNOT SOLVE OUR PROBLEMS WITH THE SAME THINKING WE USED WHEN WE CREATED THEM”
Wayne Gretzky: Philosophy on Hockey
Applies to Risk Assessment in Organizations

“A good hockey player plays where the puck is.
A great hockey player plays where the puck is going to be.”

Thomas Friedman from The World is Flat “While I was Sleeping”
Only about 14% of the companies that were part of the original Fortune 500, are even still in business today.

Why?

Because they failed to adequately control their reaction and the subsequent response to the external risk forces.

Think of External Things – If we only had foresight:

• Titanic
• 9/11
• Internet
• COVID-19
• What is Next??
Does Ice Cream Cause Drownings, Shark Attacks and Forest Fires??
Flaws in Critical Thinking & Data Analysis Can Infer the Wrong Risks, Causes & Impacts
Easy to assume correlation of things that look like they move perfectly together - but are invalid.

Everything is correlated to the rising of the sun
- Does the sun CAUSE everything to happen?
- Does any variable CAUSE the sun to rise?

Finding the True Cause – and the resulting Impacts is hard to prove.

Risk is about uncertainly and the unknown

Failure to use critical thinking or flawed thinking blinds to untrue causes and effects (external risks)
Thinking Outside the Box (Comfort Zone)

- No Advances in Civilization Have Been Made Without Thinking/Acting Out of the Comfort Zone.
- The Greatest Threats/Risks/Gains Occur Out of the Comfort Zone.
- Internal Risk Assessment Alone Is a Retreat to the Comfort Zone = Unwillingness to Discover the Unexplored (risk and reward).
- Government Agencies Mission and Action Must Adapt to Doing the Right Things. Not Just Doing Things Right – or They Become Irrelevant! (assess/respond to uncertainty)
- Do Our Risk Assessments & Recommendations Only Look Out the Rear-view Mirror (status quo), Instead of Looking Out the Windshield?
Internal Risk Assessment Keeps Us Focused on the Known and Expected at the Expense of the Unfamiliar/Disruptive

- Safe, Known, Familiar, Comfortable
- New, Creative, Change, Unfamiliar Resistance
- Audacious, Disruptive, Threatening
Tools & Techniques to Inspire Critical Rigorous Thinking

- Brain Storming/Piggy backing
- Idea Quota
- Scenarios
- Benchmarking
- Decision Trees
- Escaping Entrenchment (break the rules)
- Visualization, mapping – Possibilities, use pictures
- What If, Why and Why not Questions
- Synthetics or GAP (gain another perspective - joining unrelated concepts - draw from another discipline)
- SWOT Analysis
- PESLTE Analysis
External Risk Assessment (consider both risks and opportunities in a changing world)

1. What external changes (threats/opportunities) have (may) affect/effect this program/mission?
2. How will these changes effect the organization?
   - Political/Legal
   - Economic
   - Environmental/Natural Resources
   - Science/Technology
   - Social/Cultural
   - Demographic
# PESTLE Analysis –
examples of factors to consider – and their potential impacts

<table>
<thead>
<tr>
<th>Economic</th>
<th>Political/Legal</th>
<th>Science/Technology</th>
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<tbody>
<tr>
<td>Interest Rates</td>
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<td>Change in Gov’t/Laws</td>
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<td>Labor Rates</td>
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<td>Air/Water/Air Quality</td>
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<td>Retirement Rate/Age</td>
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- PESTLE: Political, Economic, Social, Technological, Legal, Environmental.
Scoring Internal & External Risks
Recognize Known and Unknown Risks
Also consider risk of opportunity cost

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SWOT Multi Dimensional Thinking
Applies to Internal and External

- **Strengths** and **Weaknesses** – Retrospective/Internal
- **Opportunities** and **Threats** – Prospective/External
- All stakeholders should participate:
  - External
  - Internal
  - Management
  - Staff

*The key is - gaining alternative points of view*
SWOT Analysis – Putting Things Into Perspective: Looking Back to Take Us Forward
Integrating Newton’s Laws with PESTLE, and Internal Risk Assessment provides the necessary risk assessment view of the organization from the inside out using existing Enterprise Risk Management, and maybe more importantly, the external risk force factors from the outside in!

The following diagram shows how Newton’s Laws of force works with PESTLE and ERM to address risks comprehensively.