

# STRATEGIC RISK

# POLICY MODEL

New Thinking, New Approaches and New Frameworks  
about Leadership, Decision-Making, Public Policy and Risk

The Australian Risk Policy Institute (ARPI) is incorporated under the Australian Capital Territory *Associations (Incorporation) Act 1991* and is a nationally registered Association under the Commonwealth *Corporations Act 2001*, with offices in Canberra and Melbourne.

Information regarding ARPI's Purpose, Governing Board, Publications, Partners and Contacts appears at [www.arpi.org.au](http://www.arpi.org.au).  
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## Foreword

Current risk management practices have failed government and industry worldwide. Most importantly current risk management practices have failed to protect our vulnerabilities within local and international communities. We all have a stake in this and a right to be concerned.

Current risk management practices have evolved into a formalised framework that is now accepted as a standardised process approach to the management of risk. This process of risk management has largely come together with the concept of compliance management because of the regulatory nature of the current business environment. As a consequence, process has overridden leadership, decision-making, and accountability at the highest levels of firms and agencies. Simply put, it is better to have a risk process to fall back on than to face the reality of vulnerability identification, which would force leadership decision-making and action.

The Global Financial Crisis (GFC) demonstrated that both markets and governments can fail. Between them the GFC, the Deepwater Horizon oil drilling platform blow-out in the Gulf of Mexico, and the destruction at the Japanese nuclear plants in Fukushima have resulted in a loss of public confidence and trust in our leaders—of both the private sector and government. There is also a loss of confidence in our understanding of and ability to design, operate and control, whole systems to avoid failure. The financial crisis in Europe and a range of security concerns are adding further to this public tension.

The urgency for change is fundamental – it now arises because we are more interconnected and interdependent than at any time in our recorded history. This makes us vulnerable to the systems we have designed. When a system fails all connected to it are affected. This means that some people may suffer potentially catastrophic consequences. Program failures have been known to cause leaders and governments to fall unexpectedly.

In the increasingly turbulent and unpredictable world, which inherently makes the systems within society unstable, there must be policies and methodologies that enable businesses and governments to become more resilient.

The Australian Risk Policy Institute (ARPI) has developed a model for risk policy development and implementation that elevates the ownership of risk to the highest level of governance and decision making. It is applicable to all public and private organisations.

Risk policy confers coherence, an integrated comprehension of risks, their identification and their consequences, as well as articulating who is responsible for attending to each activity around risk. Risk Policy authorises, informs, defines, drives, builds, maintains and accounts for the processes of Risk Governance and Risk Management within an organisation and in all systems.

Appropriate responses to society's apprehensions and mistrust require effective, high quality decision making from top leaders of governments and significant organisations within countries and internationally. We will depend upon leaders being prepared to get out front and do something. We know that waiting for someone else to act just perpetuates increasing damage to the fabric of our society, and increases the level of risk involved. The need to act now is readily apparent.

# Introduction

The first decade of the 21st century brought us face-to-face with the reality that our world is confronting numerous challenges that defy simple solutions and require innovative ways of thinking about how to solve them.

In August 2010 the Australian Risk Policy Institute (ARPI) introduced its innovative Risk Policy Model. The Risk Policy Model responded to the call from the World Economic Forum (WEF) and other international groups to rethink, redesign and rebuild systems to avoid future failures.

The release of Risk Policy Model:2012 reflects global feedback from a wide variety of individuals and organisations as well as further research and development.

At the core of Risk Policy thinking are Risk Policy Principles:

1. We must view risk differently and more broadly as being about future impacts, implications and implementation of decisions and non-decisions – and not just about something which might go wrong;
2. Risk must connect with, inform and be an integral component of our highest levels of Leadership, Decision-Making and Public Policy Formulation and Implementation in society, and this must be achieved through introducing Risk Policy;
3. Risk Policy must be accepted as a new leadership and management concept which authorises, informs and accounts for Risk through Risk Governance and Risk Management processes;
4. Our thinking about Risk *and* Opportunity has to shift from organisation-centric to network-centric thinking and acting – both internally and externally - in the new world of globalisation and instant relationships – reflecting our interconnectedness and interdependencies;
5. The proper starting point from today and into the future is to think about ‘vulnerability’: well before risks may be identified or considered;
6. We must think critically about whole systems and this means not only appreciating their socio-technical and network natures. We need to understand more fundamentally that systems represent deeper, established patterns of thought about how to see the world and make sense of it;

7. Systemic risk must be recognised as a new form of risk in today's world. It is often the source of so-called 'wicked' problems. New processes must be established to manage systemic risks, with multiple owners and multiple managers often in separate organisations, through collaboration;

8. We therefore need a new way of thinking about ourselves and our proper relations to each other in regard to our systems and Systemic Risk. One way to bring this new thinking into reality involves a 'New Civics';

9. In our thinking about and acting upon Risk, we must embrace 'time'. Our strategic choices about the nature and extent of possible consequences of Risk, and what action we can and should take to deal with Risk, may be directly related to the time provided by early warning and a clear understanding at what point in time a particular Risk applies.

10. We must focus on 'outcomes'. Decisions are not outcomes: decisions require action to become outcomes. Our most important outcome is protecting critical systems from future failures which can spread like a contagion and potentially cause catastrophic damage to any other systems connected to them.

11. We have to 'measure our risks' in terms of the magnitude of the consequences if we fail to avert some threat, not in terms of the probability of the consequences, or the chance that it might not happen. Our vulnerability, not probability, has to define our Risk.

12. The power of government to regulate and co-regulate also implies an obligation that it be responsible and responsive. While government might not always succeed, the virtue is to try and say we have done our best.

ARPI is dedicated to assisting leaders to make systems more resilient through the development of sound Risk Policy, Risk Governance and Risk Management. We will subsequently issue Guidelines on Risk Policy Implementation to be followed by Risk Policy Practice Notes to inform, guide and update Risk Policy principles and their application.

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