Optimize Decision Value

Hans Læssøe

#RISKAWARENESSWEEK2019

Agenda

Introduction to decision risk management

How … the “TIPA” Approach

- Targeting
- Identification
- Prioritization
- Action

Balancing your efforts

Develop a culture of intelligent risk taking

Execution vs. decision risk management

SCOPING

- **Execution risk management** focuses on managing risks, which have already been taken by decisions made and/or actions taken

  … as such, it is often reactive in nature

  … it inherently supports decisions being made

- **Decision risk management** focuses on supporting decision making by ensuring the risk profile is known for decision making

  … as such, it is presumed being proactive

  … it inherently challenges decision about to be made

Decisions comes in two steps … how to optimize value

- **Elements of a decision**
  - What to do
  - How to do it

- **Focus on “how to do it”**
  - There is a safe approach to every task
  - It is about “winning” not about “not losing”

- **Find the optimal, risk planned, approach to every option**

- **Prioritize based on your risk appetite**

TIPA approach in overview

- **Targeting**
  - What do you want to achieve …. what is success
- **Identification**
  - What may affect your missing, meeting or exceeding your objectives
- **Prioritising**
  - What do you chose to act on, how
- **Action**
  - Go execute

Targeting … putting the horse before the cart

- I have seen too many decisions are based on “We will …” without consideration as to what the desired/planned/expected outcome of this may be
  - Action for the sake of doing something
  - Riding a hobby horse

- **How do we recognize a success**
  - By what metric(s)
  - How do we measure

- Draft a plan of HOW to meet this/these tangible objectives

- Risk impact must be measured in term of the target metric(s)

Identification … needs to be holistic to be valid

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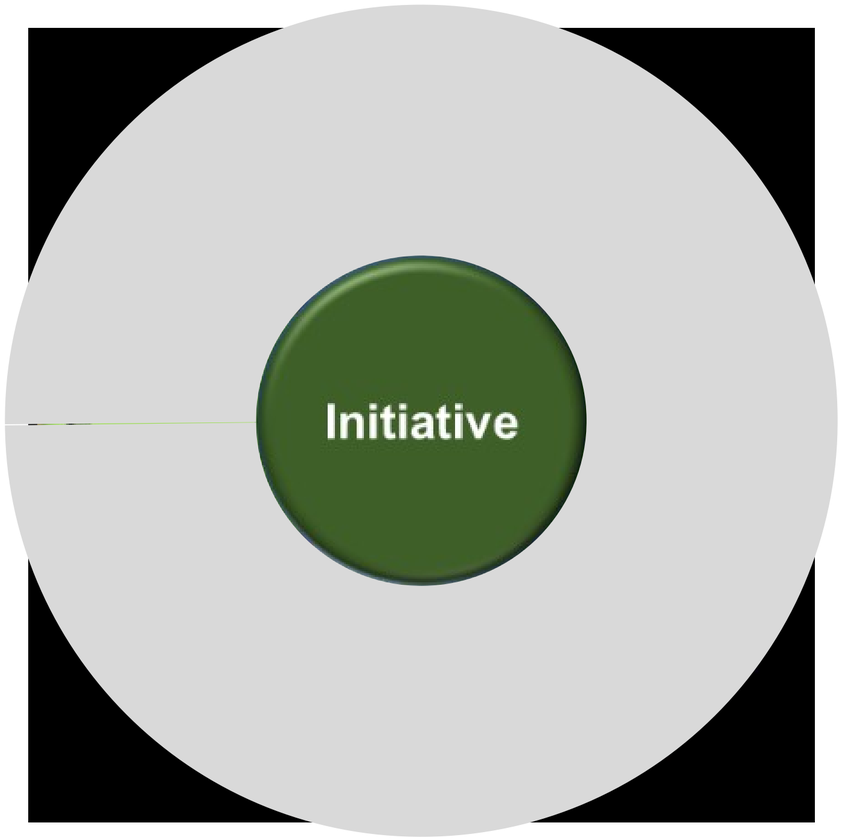
Executing on the plan …

- What may hamper meeting objectives
- What may help meeting/exceeding objectives
- Leveraging a 10 mio opportunity is as good and valuable as avoiding a 10 mio risk

BE HOLISTIC

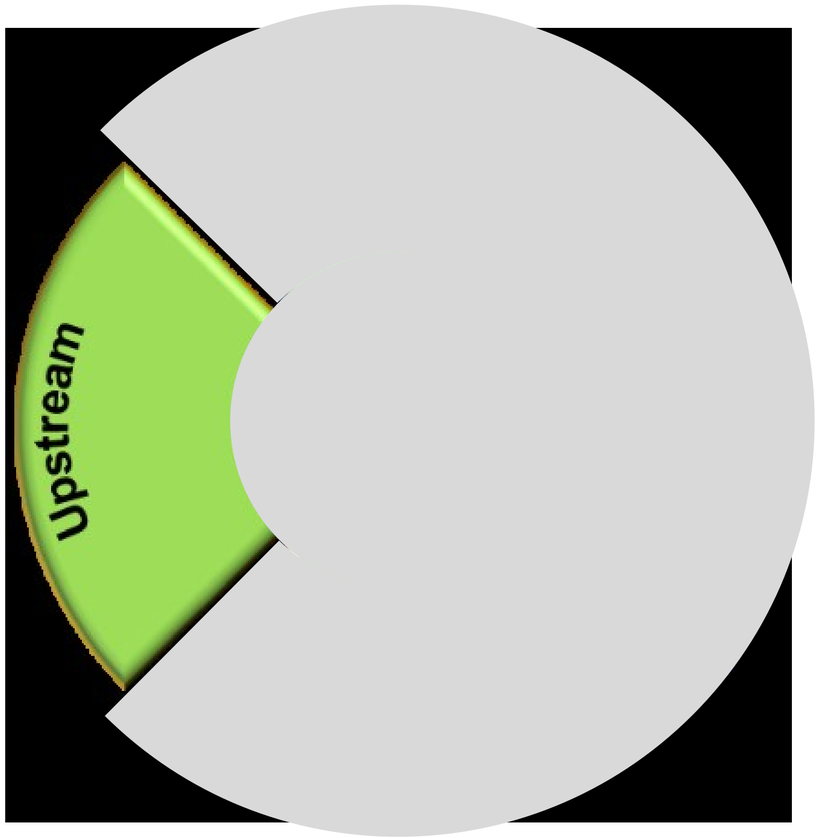
Many decisions fail because things happened that were fully foreseeable, yet never considered

Identification … direct risks and leverages



- The “**project**” management
  - Scope
  - Time
  - Resources
- The “**change**” management
  - Who need to so what differently
  - Involvement
  - Support / Obstruction
- What may help/hamper our meeting objectives

Identification … Upstream



- What happens “before” the process/area we are changing
- Which vendors do we have
- What are we “buying”
- What may help/hamper our meeting objectives

Identification … Downstream

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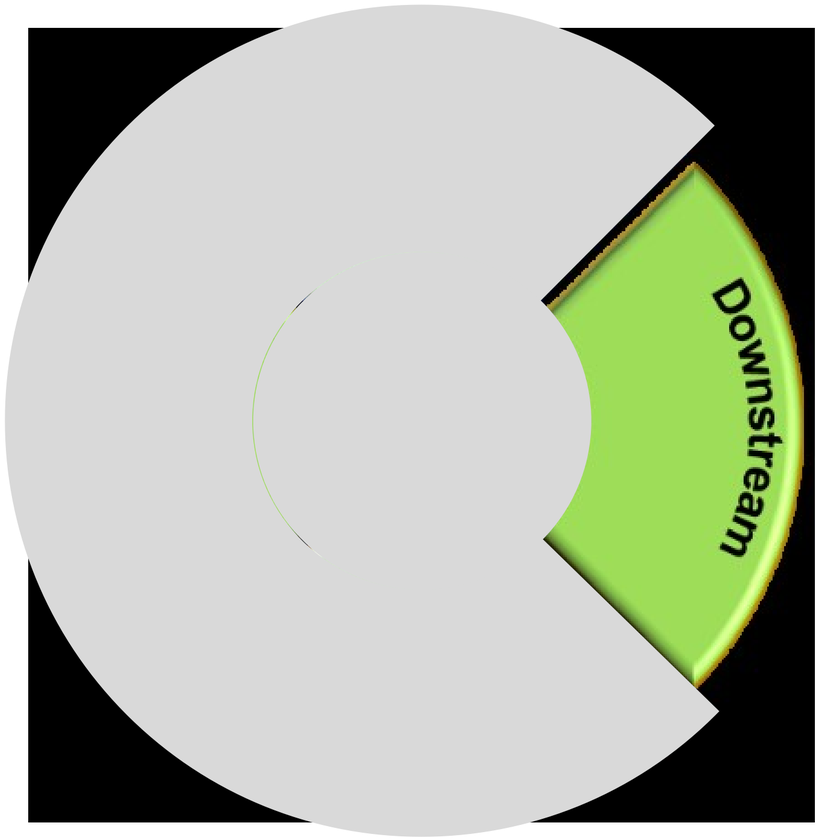
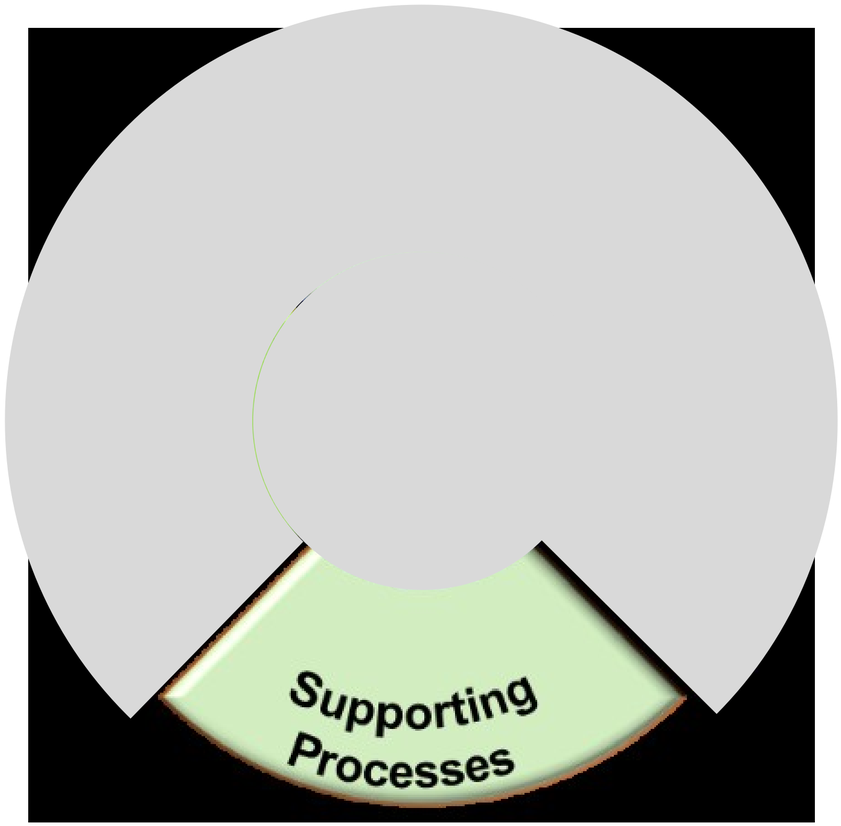


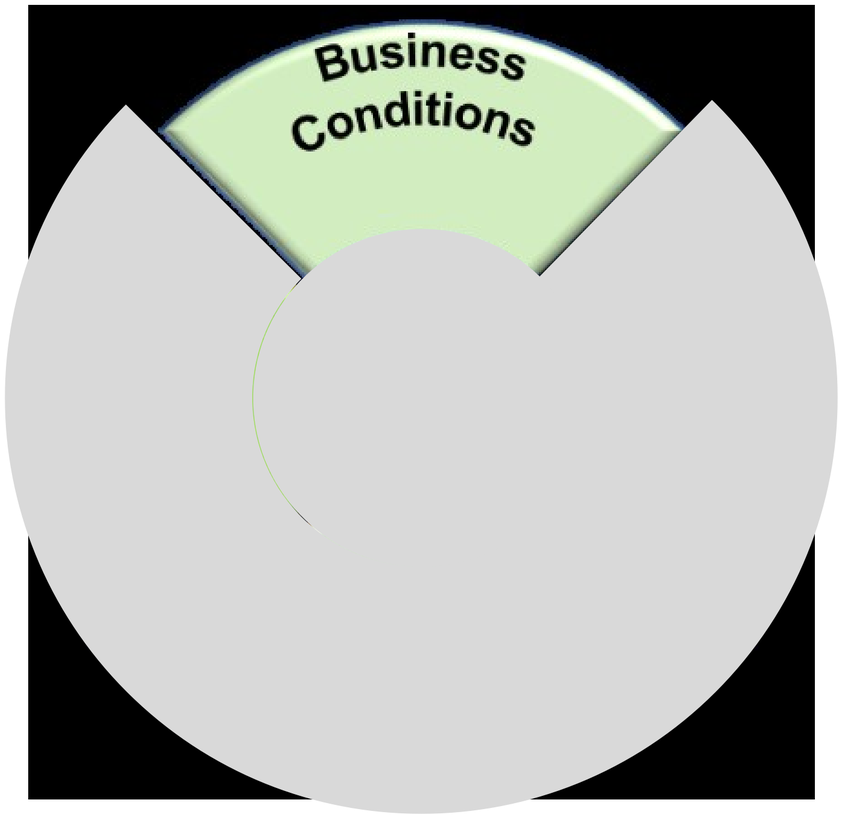
- What happens “after” the process/area we are changing
- Which customers/users do we have
- What are we delivering
- What may help/hamper our meeting objectives

Identification … Supporting processes



- Internal to the organisation
- Which processes do we rely on
  - IT
  - Finance
  - Legal
  - HR
  - ….
- What may help/hamper our meeting objectives

Identification … Business Conditions



- External to our organisation
- Which business conditions are we subject to
  - STEEP
  - Competitive landscape
  - Potential disruptors
  - ….
- What may help/hamper our meeting objectives

Prioritizing … a modelling exercise

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- **Modelling and Monte Carlo simulation is a MUST**
  - Red/Amber/Green is useless
  - Heatmaps are even more dangerous than useless
- **Measure/Analyse – do not guess**
  - Qualitative estimates are useless
  - Quantitative estimates are biased
- **Model each risk/opportunity**
  - What is the impact distribution if it materializes
  - What is the likelihood it will materialise at all
- **Add this to your decision model**

Prioritizing … Monte Carlo simulation gives two valuable results

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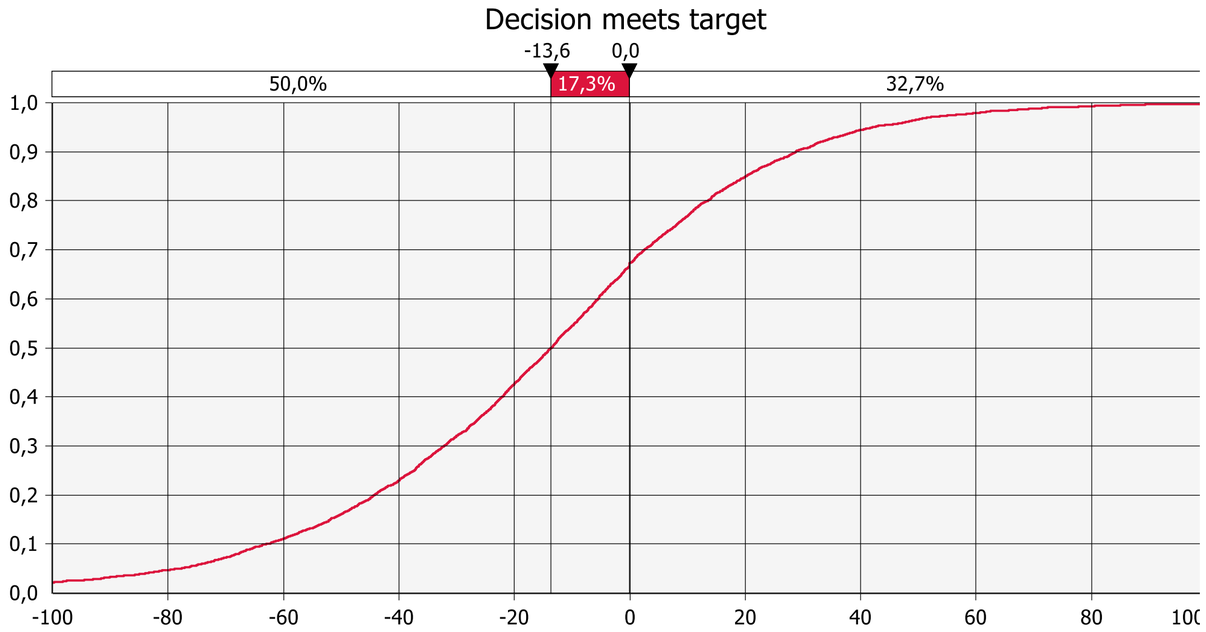

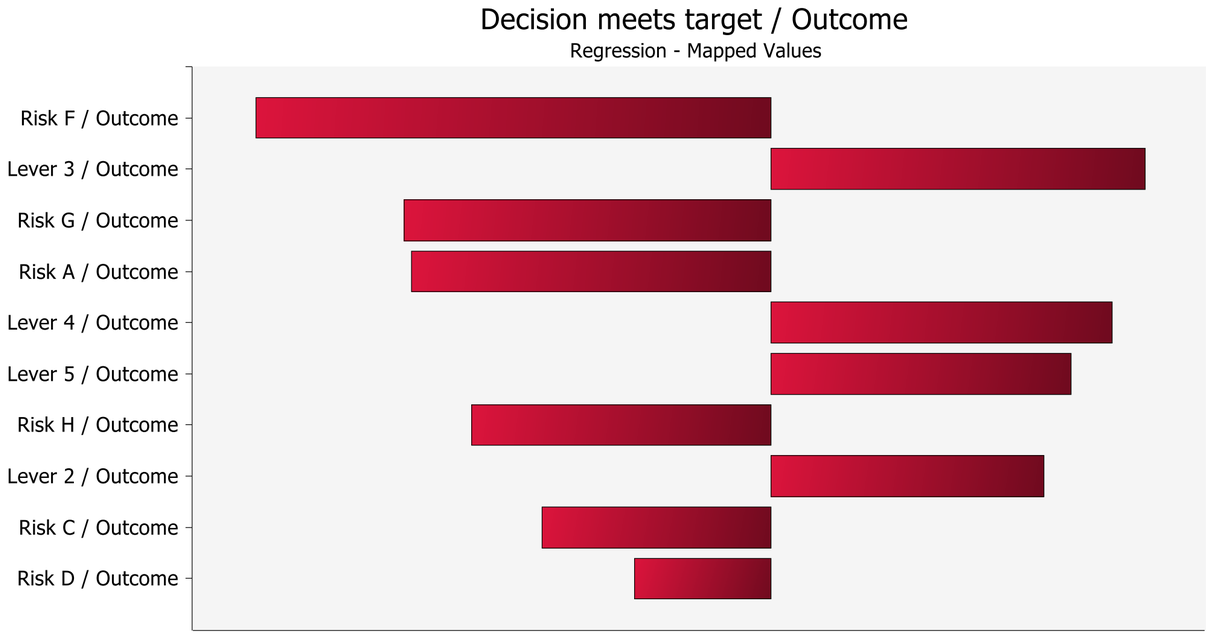

Your likelihood of meeting target

- Here shown as 32,7%
- Median outcome is -13,6 vs. target

Your key uncertainties

- Key risks are F, G and A
- Key levers are #3, #4 and #5

Prioritizing … leveraging the results to optimise outcome

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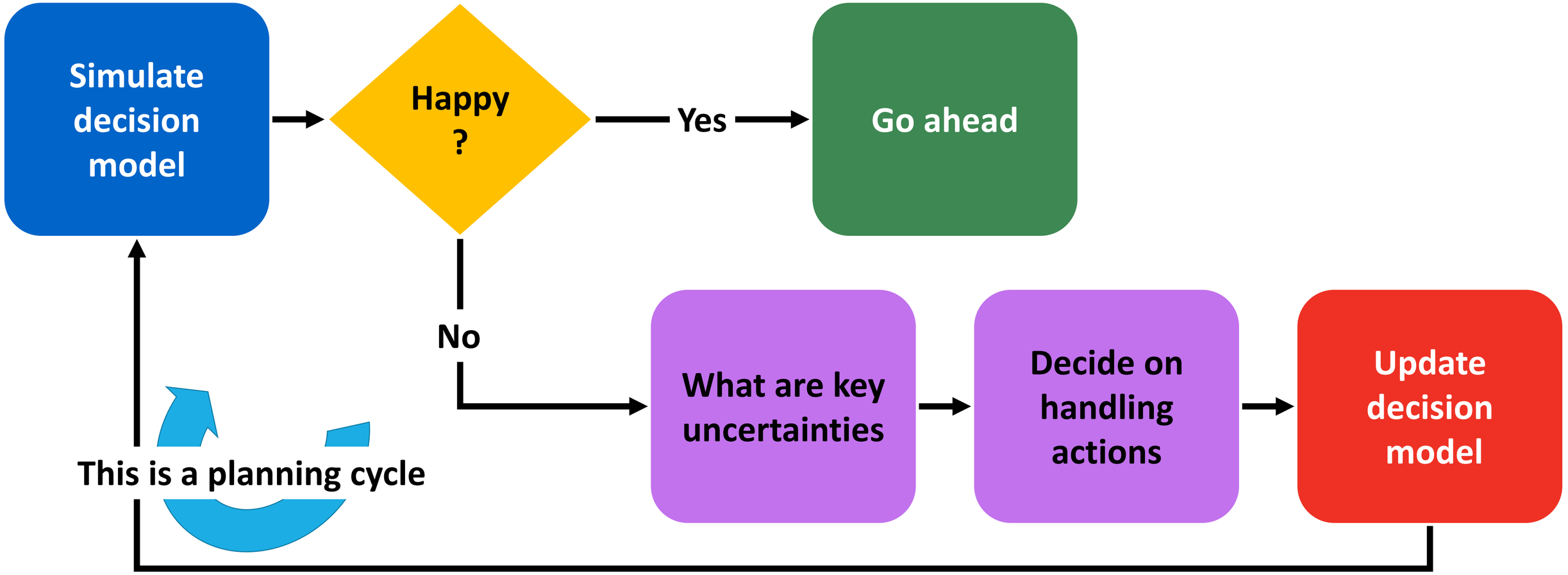

Action … Navigate real life

No plan survives first contact with the enemy

Helmuth von Moltke the elder

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- You now have an optimised plan
  - Go ahead, get started
  - Monitor developments and changes
  - Update your plan and model
  - Decide on net steps

… Iterate your way to a successful outcome

Balance your efforts

Tactical decisions

- Discuss with stakeholders
- Analyse and leverage facts
- Be risk aware

Frequent/known decisions

- Think it through
- Discuss with key people
- Be confident

Strategic decisions

- Ensure a valid decision base
- Be thorough and systematic
- Be cautious and adaptable

Develop a culture of intelligent risk taking

- Culture defines “How we do things here”
- Be systematic on optimising decision value
- Build a culture, where everybody does this … and would not consider “jumping the fence”
- Build a winning culture based on intelligent risk taking

HOW

- Consistency, consistency, consistency

Summing up

- Decisions have two elements
  - What to do
  - How to do it

  - Leverage the TIPA approach to decision optimization
  - Target
  - Identify
  - Prioritize
  - Act

- Be adaptable in your implementation

- Be consistent, and build a culture of intelligent risk taking

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Thank You …

If I can help, reach out