



RISK APPETITE in Statistical Organisations

Statistical organisations are all facing a period of unprecedented change as the external operating environment is increasingly complex and the digital and data revolution provides a platform for transformation. With any change there are associated risks. It is important during this time to have a clear – or at least as clear as possible given the known complexities – understanding of where to take risk, where to be more cautious and, importantly, what this means in words staff across the whole organisation can easily understand and translate into action.

It is through the management of risk which organisations seek to minimise (but not necessarily eliminate) threats and maximise opportunities. But how do organisations know which risks to tolerate and which to treat? And how can we encourage our organisations to take more risk, to innovate and adapt, whilst also ensuring we avoid threats to delivery and reputation? This short paper outlines how statistical organisations can approach these questions through the definition of risk appetite.

What is Risk Appetite?

According to British Standards (BS 31100), risk appetite is “*the amount and type of risk that an organisation is prepared to pursue or take*”. It is important that risk appetite should associate risk with the achievement of objectives. In essence **it is the amount and type of risk that the organisation is willing to accept in order to achieve its strategic priorities and deliver its intended outcomes.**

Risk management is about appropriate decision making and risk appetite levels and statements can provide a framework for taking daily risk-based decisions. Staff all face such decisions every day and having an articulation of expectations can help take these decisions with confidence.

Who sets Risk Appetite?

Risk appetite needs to be established at the highest level of the organisation (for example, the Board level or equivalent). It is fundamentally important that the risk appetite is agreed at the top level as it needs to be a ‘contract’ around organisational behaviours. It must be a statement of intent from the senior leadership to the organisation which says, ‘this is how we expect you to behave’.

Having high level commitment can help to embed the behaviours. It should be noted the senior managers need to model these behaviours. If there are areas where the risk appetite suggests that risks need to be accepted, then senior managers must support the organisation when these risks manifest.

How can organisations establish their risk appetite?

Traditional approaches to the definition of risk appetite focus on simple descriptions of appetite across different business dimensions, or even for the organisation as a whole. For example, an organisation may state it is 'averse' to risk around information security, or 'cautious' around financial risk. These simple statements of appetite may give a broad indication but are open to interpretation (one person's 'cautious' is another person's 'actively seeking') and can remain static over time.

An alternative approach is to define risk appetite in a way that drives correct and consistent behaviours within the organisation in line with expectations of its senior stakeholders. To achieve this, the organisation needs to agree to the **behaviours** expected at different levels of risk appetite and articulate these specifically as a framework for decision making.

The main benefit of this approach is that it sets clear behaviours that are expected at different levels of risk appetite. The articulation of behaviours in this way will give clarity to the organisation of the expectations and allow for the risk appetite to cascade and align through the organisation.

In order to achieve this the organisation can follow a number of steps¹.

STEP 1: Agree the risk appetite SCALE

The scale is used to define the level of risk appetite. An example of a common scale is show below:

	Averse	Minimal	Cautious	Open	Actively Seeking
Risk Approach Definition	Avoidance of risk and uncertainty is a key organizational objective	Preference for ultra-safe business delivery options that have a low degree of inherent risk and only have potential for limited reward	Preference for safe delivery options that have a low degree of inherent risk and may only have limited potential for reward	Willing to consider all potential delivery options and choose the one that is most likely to result in successful delivery while also providing an acceptable level of reward and value for money	Eager to be innovative and to choose options offering potentially higher business rewards (despite greater inherent risk)

STEP 2: Establish a small number of agreed RISK TYPES

Once the scale is established the organisation must agree the level of granularity on which to define risk appetite. This should be a level which is useful for decision making but not too detailed as this will detract from practical use of the outcome.

Risk types may be generic (for example financial, legal, reputation, political, environmental) or may be aligned specifically to the strategic objectives of the organisation.

STEP 3: Define clear BEHAVIOURS

For each of the risk types the organisation should define the level of appetite, on the agreed scale, and a series of clearly articulated behaviours which outline how the organisation should act to live up to the specific level of appetite. These behaviours should be set at Board level or equivalent.

Below is an example of a risk appetite statement for two particular types of risk, and how the expected behaviours can be articulated to ensure consistency in decision making.

¹ based largely on an approach adopted by the UK Office for National Statistics

Risk Type: Data Security				
Averse	Minimal	Cautious	Open	Actively Seeking
<ul style="list-style-type: none"> We avoid losing the trust of our respondents arising from a loss or disclosure of data. We have clear governance and processes for data security. The Board regularly discuss security issues. We understand the appropriate level of cyber security around all data sets and invest in the highest priority areas. We review our security policies and whilst we accept a level of risk around lower risk systems and data we recognise data loss can cause significant reputational damage to the organisation and take all steps to avoid. We allow for appropriate access to data for staff to allow the organisation to deliver its programme of research, development and analysis but only within strict security policies. 				

Risk Type: Innovation				
Averse	Minimal	Cautious	Open	Actively Seeking
<ul style="list-style-type: none"> We actively seek change, even if it creates risk. We are relentlessly curious and enthusiastic about experimenting with new products, approaches and ways of working, subject only to the constraints imposed by our risk appetite in other areas and the law, ethics and our reputation. We recognise the risk of irrelevance without innovation, investing considerable time and effort in new approaches, taking a higher degree of investment risk, and being prepared to try new things even if many of them do not result in a viable product. We accept the associated risk of bad publicity around failed projects and engage with critics to clearly explain our rationale and celebrate successes. We have a fail fast and fail intelligent environment to support innovations which are high risk. 				

STEP 4: Translate the appetite statements into ACTION

The value of risk appetite comes when it leads to tangible change across the organisation. This can be encouraged through both 'soft' and 'hard' mechanisms and management routines.

Communication is key. Risk appetite statements should be communicated broadly across the organisation through various channels. This should highlight the benefits of risk appetite statements as a framework for decision making.

The senior team should regularly review their decision making against appetite and ensure behaviours are being demonstrated from the top down.

Conclusion

The process set out in this paper can help statistical organisations take an action oriented approach to setting risk appetite. Within a complex operating environment this can help organisations which are traditionally risk averse to understand where they can take more risk. This can both help the organisation change and innovate but also focus effort on those areas of risk which really cannot be tolerated.

To learn more about this topic, please refer to the HLG-MOS Guidelines on Risk Management (<https://statswiki.unece.org/x/owEuCg>)