

# The CAM-I Risk-Value Curve: Understanding Your Risk Appetite to Create Value

## What is the issue?

Historically, the discipline of risk management was focused on preventing and reducing financial and operational loss through risk avoidance and risk transfer. Enterprise risk management (ERM) has been a key part of most organizations' strategic and operational plans for decades. Now, in this rapidly-evolving risk landscape, it's taking on even greater importance.

## Why is it important?

The complexity of risk has changed, and significant new risks will continue to emerge. The World Economic Forum has commented on the "increasing volatility, complexity, and ambiguity of the world." Every organization is impacted by risk. What determines an organization's success is how well it understands, anticipates and manages risk while also being able to identify opportunities that generate enterprise value.

## What can be done?

A risk-aware organizational culture and a risk-optimized mindset are essential for an organization to be sustainable in the foreseeable future.

The informed risk management professional, or those responsible for leading or overseeing risk management in their organization, must convince decision-makers to act – even when the value added is intangible – and guide their organization on risk optimization.

This guideline includes a three-step process for effectively implementing the risk-value approach in an organization using a tool called the "CAM-I Risk-Value Curve," and features success stories arising from the application of this approach by the local government of King County, Seattle, Washington.

## Who is this guideline for and how can it be applied?

This guideline is for leaders in business, not-for-profits and government who are responsible for risk management and/or the ERM programs in their organizations. This includes directors of boards who oversee enterprise risk, risk professionals, and professional accountants in their roles as chief financial officers or in other finance functions. The CAM-I Risk-Value Curve will enhance and supplement an existing, established and mature risk management program in your organization. Its approach can also be used at the initiative, department or business line, and/or product and service levels.



# Overview

## How emerging trends impact your organization

To work in business or operations is to face a constant stream of potential risks that can disrupt daily activity and put the future of the organization in question. While some risks represent opportunities, risk generally remains a disruptive force in an organization. When risk cannot be mitigated or when mitigation attempts fail, the organization can face a crisis. The risk landscape and magnitude of risks are changing rapidly – the scope of risk management responsibilities goes beyond the financial and compliance areas. Risk professionals, CFOs and boards are responsible not only for advising on risk but also for overseeing strategy, operations, workforce, reputation, health and safety, and other areas.



To pivot and respond to today's rapidly changing and disruptive business environment, both the risk management leader or accounting professional and the organization require a progressive mindset. CPA Canada has developed its RAISE philosophy<sup>1</sup> to guide organizations to assess their level of resilience, adaptability and capacity to innovate in response to change so that they can weather the storm of business disruption while ensuring a long-term sustainable future for the enterprise. In short, this can be expressed as: **RESILIENT + ADAPTABLE + INNOVATIVE = Sustainable Enterprises.**

The 2019 global pandemic has been a true test of business and operational resiliency vis-à-vis plans for business continuity, cash management, and crisis management and preparedness, for example. Decisions have had to be quick and innovative. The pandemic has also placed discussions of risk at the centre of the decision-making across organizations. Specifically, organizations facing crisis have taken actions that may have minimized risk or avoided it altogether. However, as organizations have faced decisions about business continuity and long-term recovery, their ability to continue creating and seeking value while maintaining the health and safety of their employees and customers has called for thinking beyond a risk-averse mindset.

The CAM-I Risk-Value Curve, along with other management tools such as scenario planning<sup>2</sup> and stress testing, supports an organization's existing risk management or ERM<sup>3</sup> program, as well as its ability to pivot and quickly respond to business continuity and operational challenges. The use of the curve is not a one-time application. It's continuous; it's a mindset; it's an

1 CPA Canada (2020), *RESILIENT + ADAPTABLE + INNOVATIVE = Sustainable Enterprises. A New Mindset to RAISE the Bar* (coming soon).

2 CPA Canada (2018), Management Accounting Guideline, *Scenario Planning*. Available at: [www.cpacanada.ca/en/business-and-accounting-resources/management-accounting/planning-budgeting-and-forecasting/publications/scenario-planning-a-three-part-series](http://www.cpacanada.ca/en/business-and-accounting-resources/management-accounting/planning-budgeting-and-forecasting/publications/scenario-planning-a-three-part-series)

3 For more information on the fundamentals of ERM, refer to CPA Canada's Management Accounting Guideline (2020), *A Practical Approach to Implementing an Enterprise Risk Management Program in Small to Medium-Sized Organizations*. Available at: [www.cpacanada.ca/en/business-and-accounting-resources/management-accounting/organizational-performance-measurement/publications/management-accounting-guidelines-mags/performance-management-measurement/managing-risks-for-smes-guideline](http://www.cpacanada.ca/en/business-and-accounting-resources/management-accounting/organizational-performance-measurement/publications/management-accounting-guidelines-mags/performance-management-measurement/managing-risks-for-smes-guideline)



organization-wide cultural change. This means the organization must change and adapt over time to respond to new risks and opportunities.

## Introduction to the risk-value approach

The Integrated Risk and Value Management (IRVM) special interest group at the Consortium for Advanced Management International (CAM-I) has developed an integrated risk-value approach, using a tool called the “CAM-I Risk-Value Curve,” for the next evolution in risk management. The risk-value approach promotes a conscious effort to optimize the relationship between risk-taking and value creation. This approach enhances and supplements an already existing and mature<sup>4</sup> risk management or ERM program in an organization. The CAM-I article describing the Risk-Value Curve and the Risk-Crisis Continuum has been previously published in *Public Risk Magazine* (January 2019,<sup>5</sup> August 2018 and August 2016).



Over the last few decades, risk management has experienced a considerable amount of change in how organizations view the role of risk within the enterprise. As [Figure 1](#) depicts, risk management practices have evolved from the traditional method of managing risk, which was a very narrow approach to risk management: the risk management role was limited to identifying and monitoring hazards, obtaining insurance and generally making decisions reactively. Risk management professionals were not normally included in integrated strategic planning discussions with senior leaders about how to determine how best to monitor and manage risk.

As the field matured, organizations became more proactive about preventing and reducing risk, creating “risk manager” roles that collaborated with organizational leaders to identify risks. As such, many organizations have adopted some form of an ERM framework and program. This third evolution of risk management is integrated and forward-looking. Organizations must communicate their risks across the enterprise and agree

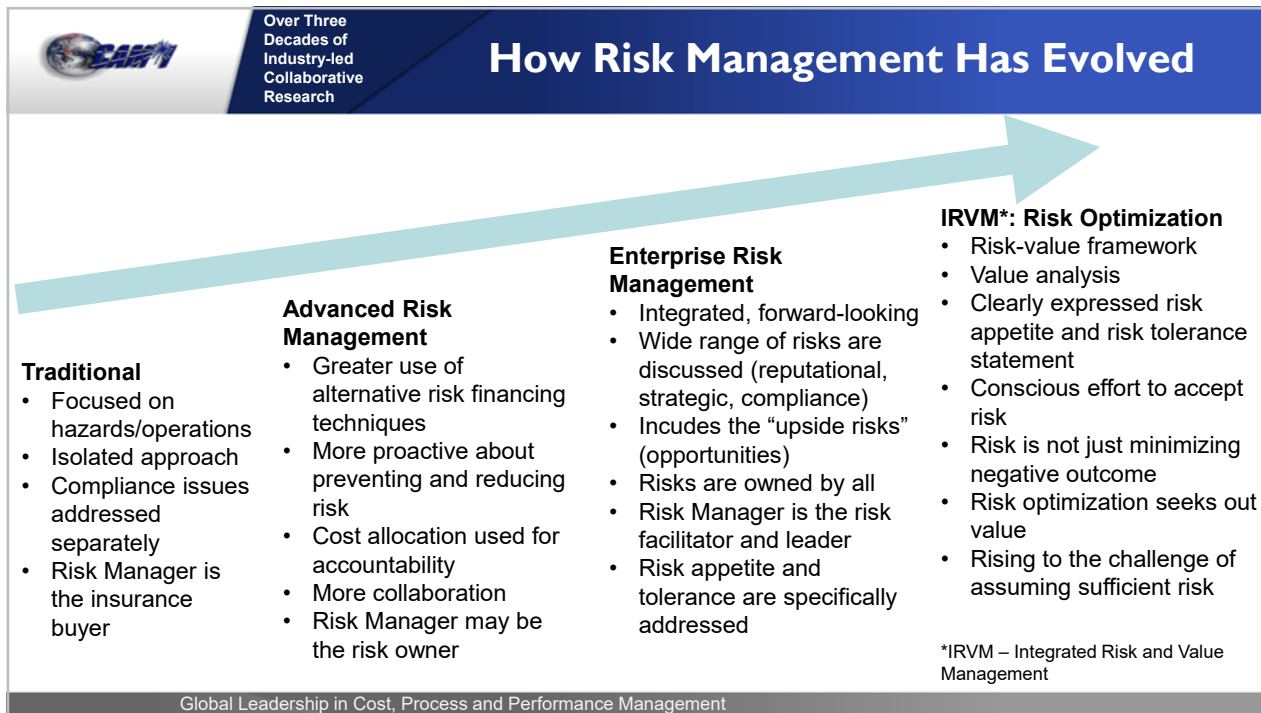
on where resources will be spent to minimize or mitigate the most severe risks. The risk management leader is no longer the risk owner but is now the risk expert, spearheading efforts to understand what an appropriate risk appetite for the organization is. This evolution of the risk manager’s scope allows an organization to address the full spectrum of significant risks by considering a combined array of priority risks, not just operational risks addressed within each department.

4 The RIMS Maturity Model illustrates characteristics of a mature ERM program. Available at: [www.riskmaturitymodel.org/rims-risk-maturity-model-rmm-for-erm](http://www.riskmaturitymodel.org/rims-risk-maturity-model-rmm-for-erm)

5 *Public Risk Magazine* (January 2019). “The Risk-Value Curve: How to Optimize Risk and Generate Value for Your Organization.” Available at: [www.cam-i.org/docs/Risk\\_Value\\_Curve\\_January\\_2019\\_Public\\_Risk\\_Magazine.pdf](http://www.cam-i.org/docs/Risk_Value_Curve_January_2019_Public_Risk_Magazine.pdf)



FIGURE 1: THE EVOLUTION OF RISK MANAGEMENT



Risk-optimized organizations take on informed risks that create value to the organization and its stakeholders. This enhanced ERM approach enriches the conversation with stakeholders by evaluating the strengths and weaknesses of a strategy, as well as how well that strategy aligns with the organization’s mission, vision and objectives. It also supports organizations in managing risks and opportunities within a defined risk appetite to achieve an optimal balance between risk mitigation and risk-taking.

The Risk-Value Curve is a helpful risk management tool that organizations can use to facilitate risk discussions and help decision-makers understand how much risk they are willing to take or mitigate. Organizations can use this Risk-Value Curve to shift their mindsets about risk and support risk-taking within the organization’s risk appetite. The concept demonstrates how an organization can take on informed risks to implement an initiative or a project and increase value within a risk-optimized zone. Continued risk-taking beyond an optimal zone could result in value decline and a possible crisis.

[Figure 2](#) shows three steps for effectively implementing the risk-value approach in an organization and the journey to answer: **Where are we now, where do we want to be and are we risk optimized?** These essential questions of strategy are illustrated and planned, using the curve as a backdrop.



# Process

FIGURE 2: THREE STEPS FOR EFFECTIVELY IMPLEMENTING THE RISK-VALUE APPROACH IN AN ORGANIZATION



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# Applying the Risk-Value Curve to your organization

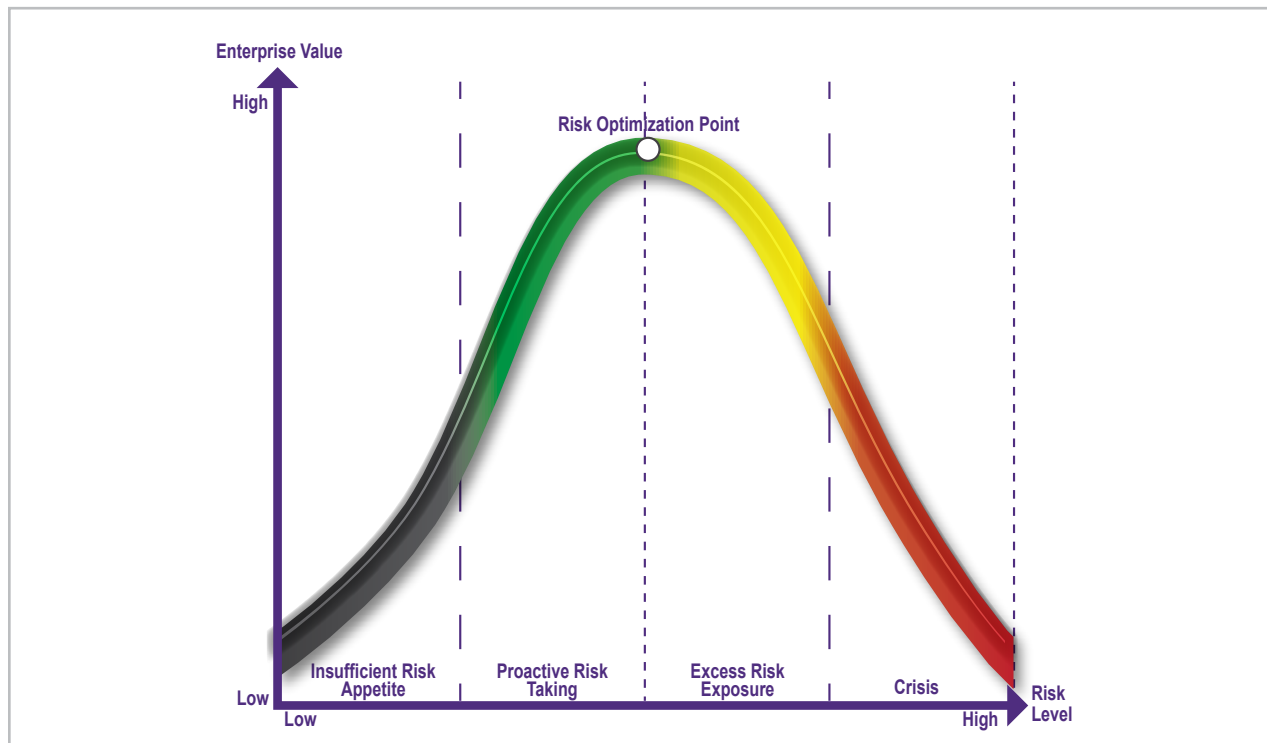
## The curve explained

The Risk-Value Curve can facilitate risk discussions and help decision-makers understand how much risk they are willing to take or mitigate. Organizations can use the curve to shift their mindsets about risk and support risk-taking within the organization's risk appetite. The concept demonstrates how an organization can take on informed risks to implement an initiative or a project and increase value within a risk-optimization zone. A traditional view of the relationship between risk and value is inverse: As risk increases, value declines. This approach changes the shape of risk to a bell curve. [Figure 3](#) depicts the relationship between risk and value along four zones:

- **In the first zone, risk is low but so is value.** This area shows that too much emphasis is placed on mitigation and avoidance of risks. An organization that makes decisions in this zone is inefficient, prioritizing compliance and risk mitigation over opportunity and value creation.
- **In the second zone, risk is optimized.** The organization is taking on risks up to its tolerance level and maximizing value. Once the high point of the curve has been passed, organizations are in a high-risk interaction zone and key risk indicators (KRIs) become extremely important. KRIs are important in this zone because they enable the organization to engage risks that might have otherwise been avoided, thereby increasing enterprise value. KRIs must be tied to the organization's strategic objectives or programs.
- **In the last zone, the organization may be in crisis mode** and should actively seek risk management tools (insurance, crisis management and disaster recovery plans, public relations, business continuity plans, increased cash reserves, etc.) to pull itself out of the crisis and into a more optimized zone. Decisions need to be quick and creative.



FIGURE 3: THE CAM-I RISK-VALUE CURVE



## Step 1

### Organizational readiness and evaluation – Where are we now?

Organizations should start by carrying out a preliminary readiness scan of the risk culture, along with their willingness and capacity to optimize their current ERM or risk management program. Even before the risk-value approach can be used, leadership must introduce the concept and prepare the organization for a change mindset. At the initial scoping meeting, it is important that the senior leadership team and board of directors understand the benefits of the risk-value approach. This approach:

- supports informed decisions and communication;
- addresses key drivers and disrupters<sup>1</sup> that impact the organization, leveraging the existing ERM program to quickly respond and adapt; and
- optimizes risk while making decisions in line with the organization's strategic objectives and priorities

If the tone set at the top of the organization allows for the engagement of risk, the risk-value approach will be much more successful in facilitating risk conversations. Providing internal training to the board and management to facilitate conversation can help shift the culture. The true benefit of the risk-value approach is to get the right people and leaders in the room, have an open dialogue and emphasize the dangers of remaining stagnant: No change can lead to no growth.

<sup>1</sup> For more information on disrupters, see CPA Canada's *Drivers of Change: Navigating the Future* (2017). Available at: [www.cpacanada.ca/en/business-and-accounting-resources/strategy-risk-and-governance/strategy-development-and-implementation/publications/drivers-of-change](http://www.cpacanada.ca/en/business-and-accounting-resources/strategy-risk-and-governance/strategy-development-and-implementation/publications/drivers-of-change), and the World Economic Forum's *Global Risks Report 2020*. Available at: [www.weforum.org/reports/the-global-risks-report-2020](http://www.weforum.org/reports/the-global-risks-report-2020)

For the risk-value approach to be successful, the following risk culture<sup>2</sup> success factors are necessary:

- The current risk management program is embedded as a component in critical decisions throughout the organization to create a culture of **risk awareness**.
- An effective risk culture is one that **enables and rewards** individuals and groups for taking the right risks in an informed manner.
- There is a broad understanding that risk management is the job of **everyone** in the organization.

### **Evaluating where an organization is on the curve**

When an organization understands where a strategic initiative or project falls within the Risk-Value Curve, management can provide direction and gain maximum value in the face of other competing priorities in the organization. This process can help an organization take informed risks to pursue an initiative or a project in order to realize the value. As risks are assessed (to inform decision-making), it is important to consider the risk of remaining with the status quo. For instance, if an organization used the curve and found itself in the “insufficient risk appetite” zone, it could consider whether its risk appetite should be adjusted to allow it to fall closer to the risk optimization point.

To facilitate discussion, [Figure 4](#) provides a list of sample questions to guide a qualitative and customizable quantitative assessment of an organization’s position on the curve. The answers to the questions should be selected on a best-fit basis, understanding that perspectives, capabilities and practices will vary within an organization. With these answers in hand, it’s easier to facilitate a discussion with key decision-makers and risk owners to determine an organization’s risk appetite depending on the most common answer:

- Mostly a) for a score of 5 to 9 – The organization may be in a low-risk, “insufficient risk appetite,” low-enterprise-value zone of the curve. The organization is taking too little risk, thereby prioritizing compliance and risk mitigation over opportunity and value creation.
- Mostly b) for a score of 10 to 14 – The organization may be in the “proactive risk-taking” zone of the curve.
- **Mostly c) for a score of 15 – The organization may be at the “risk optimization point,” high-enterprise-value zone of the curve. The organization is taking on risks up to its tolerance level and maximizing value.**
- Mostly d) for a score of 16 to 20 – The organization may be in the high-risk, “excess risk exposure” or “crisis,” low-enterprise-value zones of the curve. The organization is taking on too much risk and should actively seek risk management tools.

2 Refer to the Institute of Risk Management’s (IRM) Risk Culture Framework. Available at: [www.theirm.org/what-we-say/thought-leadership/risk-culture](http://www.theirm.org/what-we-say/thought-leadership/risk-culture)





FIGURE 4: SAMPLE GUIDING AND EVALUATION QUESTIONS

| Guiding question   | Choose one answer on a best-fit basis   |
|--|---|
| 1. Which of these statements best fits your strategic approach to risks in this initiative?    | <ul style="list-style-type: none"> <li>a) We overly mitigate our risks. [score: 1]</li> <li>b) We are aware of our risks, but our strategy does not adjust flexibly. [score: 2]</li> <li>c) We intentionally take risks in pursuit of objectives. [score: 3]</li> <li>d) Our response to risks does not mitigate them acceptably. [score: 4]</li> </ul>   |
| 2. How do you use data to understand your risks?   | <ul style="list-style-type: none"> <li>a) We use too much data. (or the wrong data) and/or analysis without making a decision [score: 1]</li> <li>b) We have good data available, but we may not always use it to analyze risks. [score: 2]</li> <li>c) We use reliable, accurate data to analyze risks and make timely decisions. [score: 3]</li> <li>d) The data we have is focused on the immediate challenges we're facing. [score: 4]</li> </ul>   |
| 3. How do your procedures enable effective risk management?                                    | <ul style="list-style-type: none"> <li>a) Our procedures do not change easily and are generally focused on compliance. [score: 1]</li> <li>b) We don't have consistent, updated procedures or our training on them may be out of date. [score: 2]</li> <li>c) Our procedures are flexible and allow for measured risk-taking. [score: 3]</li> <li>d) We often need to improvise in order to address the situation at hand. [score: 4]</li> </ul>  |
| 4. What kinds of resources (e.g., funds, personnel) are available for risk management efforts? | <ul style="list-style-type: none"> <li>a) We allocate resources on an as-needed basis, which may lead to some missed opportunities. [score: 1]</li> <li>b) We generally have fewer resources than we need in order to address all relevant risks. [score: 2]</li> <li>c) We have positioned our resources with our strategy in mind but remain flexible to future changes. [score: 3]</li> <li>d) What resources we have are focused on responding to the immediate challenges we face. [score: 4]</li> </ul> |
| 5. What kinds of systems do you have to inform risk-related decisions?                         | <ul style="list-style-type: none"> <li>a) We are limited to historical data and receive periodic reports. [score: 1]</li> <li>b) We will build systems to address emergent risks as the need to make decisions arises. [score: 2]</li> <li>c) We use predictive analytics and seek non-loss-related data to inform decisions. [score: 3]</li> <li>d) Our system is unable to assist with a crisis beyond recording data for future use. [score: 4]</li> </ul>   |



When the assessment is complete, there is an exercise that participants can carry out for a project or an initiative to further understand where the organization is on the curve. In subdivided groups, the participants can take some time to:

1. Place the identified risk on the curve based on the answers to the guiding questions.
2. Discuss the organization's response to that risk:
  - i. Will it avoid addressing the risk?
  - ii. Does it have a mitigation plan in place?
  - iii. Will appropriate resources be allocated?
3. Consider the following questions:
  - i. Has your department or business unit defined its risk appetite and tolerance?
  - ii. What are some potential steps for moving the organization toward risk optimization?
  - iii. How open is top management to taking on measured risks to create value for the organization?

The facilitated discussion and evaluation in this stage will move the discussion from *where we are now* to *where we want to be*.

## Step 2

### Understanding risk appetite - Where do we want to be?

Utilizing the Risk-Value Curve will require an organization to understand its risk appetite and tolerance at the organizational, operational, business-line, project / initiative and products / services levels. A risk appetite statement guides decision-makers. It may be altered and updated with the insights gained by using the curve: for example, where an organization should seek change and be innovative, where it should be conservative or where decisions should be brought to the attention of senior management and/or the board.

A clearly defined risk appetite statement is a critical component of the organization's overall ERM program. It guides staff on the amounts and types of risk the organization is willing to accept as it pursues opportunities to achieve its mission, vision and objectives. To establish more specific guidance, individual departments, lines of business, etc., should be encouraged to create their own risk appetite statements for various projects, initiatives and products.

As it is for any risk management process, the senior executive management team does not itself "own" risk in an organization; risk is owned at every level throughout the organization, including that of the board of directors. With an understanding of the risk-value approach, the risk management leaders can help assess risks and opportunities and can provide structure to risk-optimized decisions.

The leader can guide a team through a risk-optimization discussion using the Risk-Value Curve as a strategic discussion tool, but risk owners are responsible for making informed decisions (i.e., taking calculated risks) that yield a positive value for the organization.



### ***Establishing organizational interest***

The risk management leader or ERM program office is the primary point of contact to lead the risk appetite statement exercise. Each exercise begins uniquely, with potentially different combinations of participants. Most of the time, the risk management leader will meet with representatives from interested departments throughout the organization and provide the following information:

- the organization's overall risk appetite statement,
- background on the organization's strategic objectives, and
- risk appetite statement examples available from other departments or business units.

### ***Running the exercise***

#### ***Logistics***

Departments should agree on the most appropriate time for the exercise (often during a regularly scheduled management team meeting). To best manage the discussion, the group should be limited to 30 participants at most.

#### ***Facilitation***

To help participants adopt a risk-optimization mindset, here are some guiding questions:

1. What risk do you spend the most time managing?
2. What do you think is the most important risk you are responsible for managing?
3. What risks do you wish you had more time, money or resources to manage, but that you are not able to manage well given the current environment?
4. What is the main reason you are unable to devote time, money or resources to that risk?
5. From your perspective, what are the three most important risks facing the organization as a whole?

#### ***Risk appetite assessment exercise***

This exercise guides leadership through an assessment of each department's risk appetite. For each project or initiative, participants assess key risk areas (e.g., operations, finance, strategy, reputation, compliance, workforce, safety) on a five-point scale like the one in [Figure 5](#).

**Risk appetite is the amount of risk, on a broad level, that an organization is willing to accept in pursuit of its objectives. It reflects the entity's risk management philosophy and, in turn, influences the organization's culture and operating style. Risk tolerance is the degree of uncertainty an organization is able to accept in pursuit of its objectives.**



FIGURE 5: SAMPLE RISK APPETITE ASSESSMENT SCALES

|                           |   |
|---------------------------|---|
| <b>(1) Risk averse</b>    | Accepts as little risk as possible; not willing to accept any negative impact to pursue objectives        |
| <b>(2) Risk concerned</b> | Cautious approach to risk-taking; only willing to accept a small negative impact to pursue objectives     |
| <b>(3) Risk neutral</b>   | Balanced risk approach; potential negative impacts and objective completion given equal consideration     |
| <b>(4) Risk tolerant</b>  | Greater than normal risks are tolerated; willing to accept some negative impact to pursue objectives      |
| <b>(5) Risk seeking</b>   | Aggressive risk-taking is justified; willing to accept a significant negative impact to pursue objectives |

The next step is to ask participants to evaluate each key risk area with this question in mind: “What is the department’s appetite for risk when making decisions regarding [this key risk area]?”

### *Gaining consensus*

The key risk areas should be presented in a specific order: It’s generally easier for the audience to grasp the concept of risk appetite for less complex key risk areas.

An audience response system (i.e., automated clickers) is highly effective for quickly gathering perspectives from a group while maintaining anonymity, which helps in light of potential differences in positional power and individual participants’ status or background. When perspectives diverge, spend some time soliciting more detail and rationale from participants. When perspectives converge or there is consensus, it’s appropriate to move on and save time and energy for distinguishing differences in other areas.

Each session is unique. The key is understanding that an outcome is an approach the participants’ department uses to empower decision-makers.

### *Follow-up*

Within two business days of the exercise, communicate with each department to:

- provide initial exercise outcomes in a preliminary graphic (see [Figure 6](#));
- remind them to provide vital documents to inform the statement’s development (e.g., strategic plans and statements associated with values, objectives, finances and project planning);
- identify key risk areas that are higher priorities and seek confirmation of those priorities; and
- set expectations for timeliness and next steps.



FIGURE 6: SAMPLE RISK APPETITE GRAPHIC

| Key risk areas | Risk averse | Risk concerned | Risk neutral | Risk tolerant | Risk seeking |
|----------------|-------------|----------------|--------------|---------------|--------------|
| Strategy       |             |                |              |               |              |
| Finance        |             |                |              |               |              |
| Reputation     |             |                |              |               |              |
| Operations     |             |                |              |               |              |
| Workforce      |             |                |              |               |              |
| Compliance     |             |                |              |               |              |
| Safety         |             |                |              |               |              |

### *Drafting and finalizing the statement*

Start with a copy of the organization’s risk appetite statement. Read the documentation provided by the department or business unit. Identify and summarize ideas, concepts and statements associated with key risk areas. Integrate these ideas into the corresponding areas of the draft risk appetite statement. Retain the overall format of the risk appetite statement (e.g., the order of sections and the general format of ending each section with a statement of the applicable appetite categories).

The contact within each department or unit should indicate when the draft is ready for the next step; that readiness date will vary within each department, but in all cases it generally involves a broader discussion with leadership and an exercise based on a real-life decision (i.e., new initiative) for the department. It will also involve some socializing or promotion of the document throughout the organization.

### *Tracking progress and differences*

Documenting this process is important. It allows the risk management leader or ERM program staff member to identify gaps between statements or developments where risk appetite may be shifting across the organization.

A progress-tracking sheet can show where each risk appetite is in its development, the dates of each milestone, and contact names for each department or business unit. An “Appetites” sheet can be used to show all of the risk appetites across each department and key risk area.



## Step 3

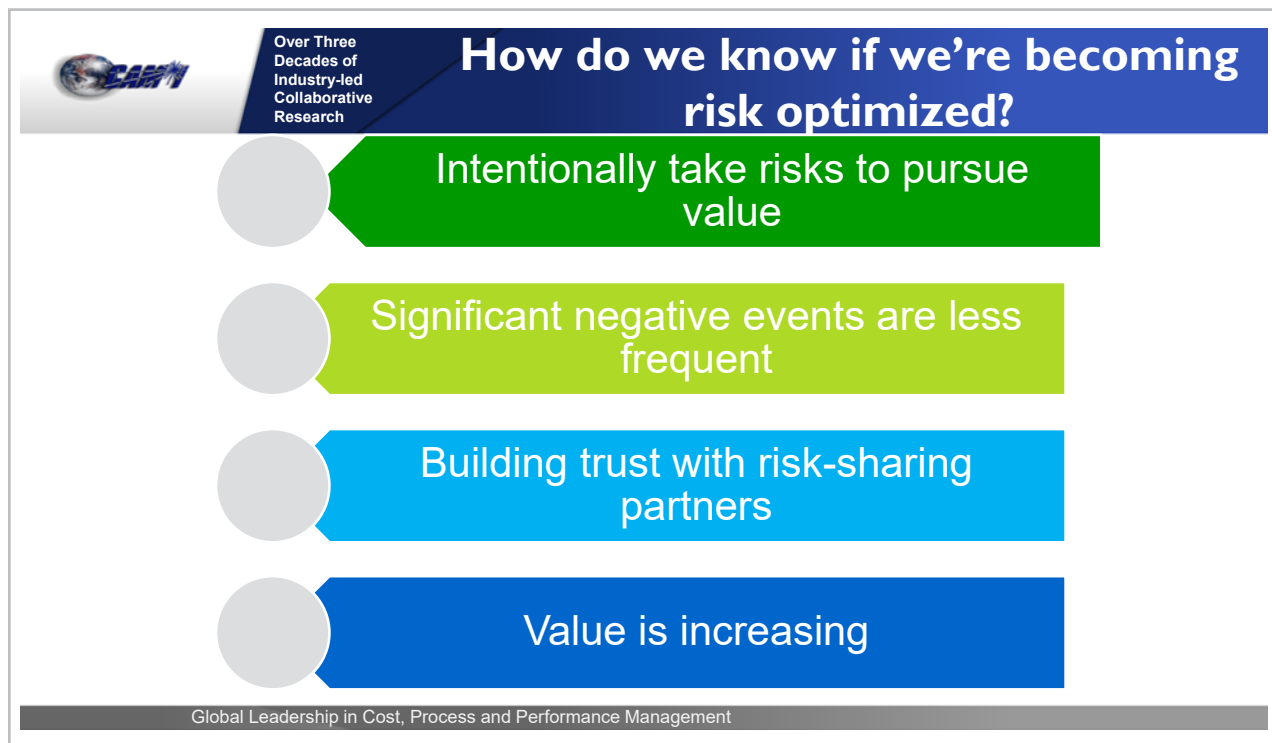
### Evaluation – Are we risk optimized?

Achieving the goals set for each identified risk (including success criteria and action plans) will help the organization demonstrate that the risk engagement did, in fact, add value to the organization. Keeping in mind continuous improvement as these goals are met or not met, the goals will need to be re-evaluated in conjunction with the risk to identify if adjustments are necessary. Periodically, the risk management leader should work with risk owners to revisit and identify where their risk engagement is no longer optimal and is now exposing the organization to excess risk.

At this time, an update to the guiding questions (see [Figure 4](#)) from the organizational readiness and evaluation stage will aid a reassessment of where an organization is positioned on the Risk-Value Curve.

In moving an organization toward integrating risk and value, how does the organization know if it is making progress? Successful organizations proactively take informed risks to pursue value – this risk-taking will align with the organization’s strategy, and resources will be allocated to gain the value from engaging the risk. The key success factors in Figure 7 should be considered when determining whether an organization has achieved risk optimization.

FIGURE 7: HOW DO WE KNOW IF WE’RE BECOMING RISK OPTIMIZED?



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## Summary

The CAM-I Risk-Value Curve helps introduce the concept of value when analyzing risk, which in turn helps organizations take on informed risks to advance their missions, values and strategic objectives. This contemporary approach (albeit more conceptual than the traditional ERM approach) views risk across two dimensions and has the power to transform an organization's thinking. The curve can enhance organizational value and help organizations become more resilient, adaptive, innovative and sustainable. Risk management is a crucial component of an integrated approach to strategy and decision-making.

The local government of King County in Seattle, Washington, has successfully applied the CAM-I Risk-Value Curve. The following section reviews King County's approach.



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# Key Learnings

## Examples of the CAM-I Risk-Value Curve in practice in King County, Washington

### About King County

King County in Seattle, Washington,<sup>1</sup> uses the Risk-Value Curve to change its culture from “risk-averse” to “risk-optimized.” King County, which includes the Seattle-Bellevue metropolitan area, is the 13th-largest county in the United States, serving a population of over two million people. Throughout the past six years, King County has experienced a significant growth in population, new commercial and residential construction, transportation infrastructure, and business and community development. This economic expansion affects all of King County’s departments and programs, ultimately increasing the complexity of government services.<sup>2</sup>

King County, with its 14,000 employees, provides public health and community services, parks and recreation, wastewater treatment, building and land use services, and criminal justice (e.g., law enforcement, correctional facilities, courts, prosecuting attorneys, public defenders). King County operates regional bus, light rail and streetcar services with over 140 million annual passenger trips. It also provides passenger ferry service and owns and operates King County International Airport / Boeing Field.

Dow Constantine, a King County executive, encouraged the government to change its approach to risk. It now uses the Risk-Value Curve as a way to visualize when risk can be optimized (as opposed to placing too much emphasis on mitigating or avoiding risk). This has encouraged a more balanced approach to risk. County departments are now taking informed risks to increase value for customers, the public and local residents.

1 *King County Employee News* (April 18, 2018). “King County’s Risk Journey.” Available at: <https://kcemployees.com/2018/04/18/the-countys-risk-journey>

2 *Public Risk Magazine* (August 2018). “Seattle Risk Manager is the 2018 Public Risk Manager of the year – Meet Jennifer Hills, ARM-P, CRM.” Available at: [www.cam-i.org/docs/Public\\_Risk\\_Magazine-Meet\\_Jennifer\\_Hills\\_ARM-P\\_CRM.pdf](http://www.cam-i.org/docs/Public_Risk_Magazine-Meet_Jennifer_Hills_ARM-P_CRM.pdf)



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The following King County success stories demonstrate the benefits of the CAM-I Risk-Value Curve.

## ***Internships in public health***

### ***Background***

For decades, King County Public Health had offered internships to college students in various medical fields. To participate in an internship, the student's college or university had to agree to the insurance and indemnification requirements in King County's contract. One clause required the educational institution to indemnify King County from the negligent acts of student interns. Universities offering four-year degrees agreed to the language and all contractual requirements, but community colleges offering two-year diplomas did not. Public Health looked at the demographics of students who attended universities and those who attended community colleges through an equity lens. King County, which is committed to social justice, wanted to ensure it was offering opportunities equitably.

### ***Optimizing risk***

Public Health felt that its internships were not equitable for community college students and, in 2016, decided it was time to reevaluate the program with the assistance of the county's Office of Risk Management Services. The team determined that the internship policy was in the "inefficient" phase of the Risk-Value Curve (i.e., risk was low, but so was value). King County convened a risk management working group (comprising attorneys, public health officials, HR staff and clinicians) whose task was to review past loss history (e.g., negligent acts) related to interns and analyze contractual requirements. King County attorneys contacted community college attorneys for input on students not being able to meet contractual requirements.

The working group also reviewed the organization's mission, vision and core values (which referenced "equity" and "opportunity") and concluded that the internship policy was not equitable for students who attended community colleges. Community colleges were much more likely to be diverse than were universities.

### ***Outcome***

After analyzing past losses caused by student interns, the value to be gained by developing students' interest in public health as a career, and the additional risk to King County from eliminating the indemnity protections, the working group agreed to take the risk in their pursuit of value. King County amended its contract, eliminating the requirement that community colleges indemnify King County against any negligence by student interns, thereby transferring that risk to King County.

Under King County's historic view, where risk was something to avoid, risk optimization would not have resonated with public health leaders. The county had been in the "insufficient risk appetite" zone of the curve, giving too much weight to a possible negative outcome and not looking at the value that could be created by expanding public health internship opportunities. King County's success with ERM gave it the tools to apply the Risk-Value Curve and accept increased risk in the pursuit of value for Public Health, the students and the community.



## Used child safety equipment

### Background

King County Public Health clients often lack basic equipment for safe infant care, including cribs and car seats, because of a lack of financial resources. When possible, Public Health provides new cribs and car seats to families who need them, but new items are often unavailable. Reliance on new cribs and car seats meant some families did not have a safe place for their babies to sleep and/or a safe way to transport their babies and small children. Several community agencies had gently used cribs and car seats available for donation; but, for liability and safety reasons, they were not permitted to provide used baby equipment directly to individuals. It had previously been decided that the risks associated with providing used equipment to clients were too great for Public Health to accept.

### Optimizing risk

In light of the situation, a Public Health employee approached the county's Office of Risk Management Services with an idea: a donation program for used cribs and car seats. The Office of Risk Management Services held a risk management tabletop discussion, which was a new process the county had adopted. Public Health called it "Leading with Healthy Risk in Mind."

### Outcome

It was determined that having Public Health distribute used cribs and car seats from these community agencies would be a harm-reduction approach offering great value to families in need - families who wouldn't have otherwise had access to essential safety equipment.

This approach also gave Public Health the opportunity to provide critical education to families about safe sleep and safe vehicle travel. Donating agencies now review the safety of items and check for recalls before making their donation, and Public Health now helps families register those products with manufacturers.

## District court<sup>3</sup>

### Background

A community court differs from traditional court in that it seeks to identify and address the underlying challenges of court participants that may contribute to further criminal activity. Its goal is to build stronger and safer neighbourhoods, reduce reoffending, reintegrate offenders into the community and heal any harm their offences caused.

A community resource centre is an integral component of community court. Resource centres at each court make community partners available to provide services like healthcare, insurance, education, job training, behavioural health, and support for substance use disorders. By coming together in one place, many different community service agencies are better able to collaborate.

3 Please visit their website to learn more about community courts in King County: [www.kingcounty.gov/courts/district-court/Community%20Courts.aspx](http://www.kingcounty.gov/courts/district-court/Community%20Courts.aspx)



### *Optimizing risk*

Community resource centres lack the security measures associated with traditional courts and may require additional work on the part of court officials and staff to implement such measures. Potential operational, workforce and safety risks are always considered against King County's fulfillment of equity objectives and strategic priorities. To reduce these risks, community courts are not open to those with violent felony convictions in the last five years, pending violent felony charges or a sex offender history. The specific crimes heard at each community court vary by city but can include actual court proceedings on misdemeanors such as urinating in public, sleeping in a park, theft, trespassing or disorderly conduct. Driving-related cases are currently not eligible.

### *Outcome*

Having court hearings in a safe, neutral and community-centred location (such as a library or community centre) encourages participants to remain engaged and removes the stigma associated with attending a courthouse. Additionally, because community resource centres are co-located with courts, they are crucial to providing services that participants and other community members need, so it is important to house the resource centres in places that are easily accessible to everyone.

### *Insurance requirements in contracts*

#### *Background*

Certain operations within King County are best performed by community-based organizations (CBOs) rather than by larger organizations that lack experience in particular communities. Best Starts for Kids, which promotes prevention and early intervention strategies for healthier children and families, is one such initiative. It is considered the most comprehensive approach to early childhood development in the United States: providing prenatal support, sustaining the gain through teenage years (e.g., by teaching health and nutrition) and investing in safe, healthy communities that reinforce progress.

However, some CBOs may not have the resources, experience or staff to perform certain financial and compliance-focused activities. For example, King County's contracting process sometimes requires various insurance coverages or an audit history, which some CBOs are unable to provide even though they are considered excellent fits as service contractors.

### *Optimizing risk*

King County's Office of Risk Management Services encourages smart, thoughtful risk-taking from its own staff, with an approach to negotiating county contracts and relaxing its contractual insurance requirements in alignment with the county's equity and social justice commitments. Insurance requirements for contractors are carefully evaluated in connection with contract exposures. When possible, terms are adjusted to allow for contracting opportunities amongst smaller companies and CBOs that are considered an excellent fit as service contractors. Applying this risk optimization approach to contracting with smaller organizations means weighing potential financial and compliance risks against the county's ability to fulfill its equity objectives and strategic priorities.



### **Outcome**

As a result, accepting a lower level of insurance coverage or allowing for more flexibility in contract provisions creates opportunities for smaller organizations that have proven to be effective in serving specific populations. Relaxing some of the contractual requirements, specifically around insurance requirements, creates opportunities for smaller organizations and CBOs to partner with the county to provide the highest level of prevention or intervention services for the county's residents, in support of a healthier community.

### **Early case-assessment strategy**

#### **Background**

Over the past few years, King County has significantly reduced the time it takes to resolve litigation claims in excess of \$250,000. The Litigation Section of the Prosecuting Attorney's Office has adopted an early case-assessment strategy, which includes written case-management plans for significant claims and lawsuits.

#### **Optimizing risk**

With this approach, major losses are reviewed to assess liability and damages, establish case reserves and select a team to manage them. The claims and litigation team is tasked with early outreach, an appraisal of essential information requirements and a written plan to acquire that information. The team makes a short list of required information rather than investigating every potential angle.

The early case-assessment strategy requires a mature process to evaluate liability and assess damages. This approach may involve increased risk for the county: They involve significant focus and expertise, it may disrupt the normal flow of business, and it may involve non-traditional discussions with a claimant's attorneys.

### **Outcome**

This approach works at King County because the Office of Risk Management Services and the county's in-house lawyers have the experience and judgment to stay focused on the issues that determine outcomes. Ultimately, using resources efficiently saves costs and achieves better outcomes for claimants and King County's taxpayers.

### **Public records program**

#### **Background**

Washington State's Public Records Act (PRA), one of the United States' broadest open-records laws, is an unfunded mandate<sup>4</sup> that costs state and local governments millions of dollars each year. Providing this high degree of access to government records does not come without costs.

4 An "unfunded mandate" refers to a rule, law, or policy from one body of government (the State of Washington) that affects another body of government (King County). It creates an obligation for the affected body (King County's duty to respond to Public Records Act requests), but does not allow for the affected body to create a mechanism to recoup the costs of fulfilling that obligation (King County is allowed to charge requesters only modest fees for the records, which do not reflect the actual cost of responding to the request).





A 2016 performance audit by the Washington State Auditor’s Office found that, on average, counties in Washington received 731 PRA requests per year. King County’s executive branch<sup>5</sup> received 10,571 requests in 2016 and 11,610 in 2017 – a 28 per cent increase in requests, up from the 25 per cent increase in 2016.

Technology advancements have changed the way governments conduct business and have increased the complexity of PRA responses. Complicated PRA law also adds to the workload that governments face when responding to requests – they must determine which records and then which portions of those records are both responsive to a request and disclosable. There is also a timeliness component to requests; incomplete or delayed requests may cause additional costs to the responding government agency, such as tort (liability) claims and reputational damage. The ever-changing records environment, along with antiquated laws, present challenges and risk to agencies across the state, including King County.

As agencies continue to leverage technology, more records are created and stored, which increases the complexity and volume of PRA responses. One way to measure complexity is to look at how many days a request is open. In 2012, the average was 16 days. By 2017, the average had increased by 131 per cent to 37 days.

Agencies in Washington spend in excess of \$60 million each year responding to PRA requests. Since 2006, King County has paid fines and penalties of over \$2.4 million in PRA-related claims and lawsuits.

<sup>5</sup> King County’s executive branch is responsible for most day-to-day operations of government functions such as public transit, wastewater, solid waste, parks, roads, public health, detention, facilities and permits.



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### Optimizing risk

A poor PRA response can lead to multiple types of risk, including financial, reputational and operational. Without a change to the current process, the PRA response will function in continual crisis mode. Before requesting a permanent addition to staff to fulfill this need, the Office of Risk Management Services needed to verify that such an addition would effectively address the problem. A preliminary (pilot) program was created to address the specific problems. Here are some examples:

- Procedures may be inconsistent or lacking, or they are ignored in favour of focusing on the crisis.
- Resources are focused on individual incidents rather than being positioned strategically.
- Employees are overwhelmed, having not been equipped to respond adequately.

In 2016, the executive branch created a Public Records Program pilot, funded by King County's loss control fund,<sup>6</sup> to address the increase in both volume and complexity of PRA requests and to create tools and systems to help. Creating standard work processes and offering tools and training improves efficiency, reducing risk and increasing customer satisfaction. The pilot has helped shift the level of associated risk closer to the risk optimization point.

### Outcome

As a result of the pilot, turnaround times for PRA requests decreased by 9.75 per cent and the cost of PRA-related claims decreased by more than 56 per cent. To measure the ongoing future success of the program, King County uses the following KPIs:

- reduction in average number of days requests are open,
- reduction in number of claims filed,
- dollars paid per claim, and
- engaged and resourced public records officers.

<sup>6</sup> The loss control fund is a fund within the Office of Risk Management Services. It funds projects addressing emergent risks (where prior budgeting was not possible because of the emergent nature of the issue) and new approaches to persistent risks (where existing systems lack capacity or flexibility in funding to adjust and try something new).



# Resources

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## About CAM-I



The Consortium for Advanced Management International (CAM-I) is an international consortium of manufacturing and service companies, government organizations, consultancies, and academic and professional bodies that have elected to work cooperatively in a pre-competitive environment to solve management problems and critical business issues common to the group.

CAM-I, working with its membership, has created innovative cost-management models that have improved target costing methods through the application of process-based management and performance management tools. CAM-I is a leader in environmental sustainability methodologies and intelligent data quality. Its members are large organizations that have firsthand knowledge of enterprise risk management. The consortium also has advanced applications in the fields of planning and budgeting processes, as well as change adaptation and learning. CAM-I is here to put all this business knowledge and experience into a form that allows its members to benefit.

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