Three lessons for risk management from golf

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I love golf. And like many people, I find golf to be a cruel mistress. Just when I think I've got her measured — she pulls the rug out from under my feet and I have to re-evaluate everything I know about her. Risk is the same — you can never conquer it — you can only learn to read the conditions and manage your game to achieve the best outcomes.

Even if you know nothing about the game, I think there are some things about golf that are universal, and can help us all find a better way to do what we're doing in the world of GRC.

There is a tradeoff between risk and return

When you're standing at the tee, do you drive over the bunker, which you can probably make in one shot, or do you take two shots to go around it? Of course, the answer is 'it depends'. It depends on your skill, your experience, whether you are at the beginning of the round, and can afford to miss a few shots, or at the crucial end stages of the game where every swing is critical. Put simply — it depends on your risk appetite.

Your risk appetite allows you to navigate that narrow pathway between risks which are threats and those which are opportunities. A clearly defined risk appetite, which has been communicated and understood throughout the business empowers you and your team to make optimal decisions.

Technology is not the solution

Technology is merely a tool that enhances performance. You can have the best wood that money can buy and an app that gives precise GPS-calculated distances and real time analysis of your swing, but if you don't have a solid drive, consistent putting performance on the green and an ability to keep calm in a bunker, all that technology is wasted.

It's the same with data analytics. You can have sophisticated business intelligence software running daily reporting on a range of indicators, but if you don't have a framework to identify risk areas as they arise and an established process for review and escalation of issues, then these tools are redundant. To really leverage the investment made in such software, risk metrics need to be incorporated into the business metrics that are being monitored and a robust process for escalation and resolution needs to be established and communicated across the organization.

Complacency is your worst enemy

Just because you've hit a shot a thousand times before, it doesn't mean you'll make it onto the green this time. Your handicap and your past performance are no guarantee of how you're going to perform today. You need to be continually aware of and focused on every element of your game.

In risk management too, complacency can be fatal. If boards think that they already understand all the risks and do not encourage a culture of openness, and of escalation and action on issues as they arise, it promotes a weak risk culture. This was at the heart of many of the issues in the global financial crisis, where boards turned a blind eye to a culture of excessive risk taking due to the high level of profits that were being earned. Emphasizing risk culture addresses the impact that an organization's culture can have on the prevention of unacceptable risks and the identification of emerging risks. Building knowledge and understanding of risk at every level leads to the promotion of risk awareness throughout the organizational structure.

As Bobby Jones, a famous golfer in the 1920s and 30s, and founder of the US Masters said, 'I never learned anything from a match that I won', and we don't learn anything about risk management when everything is going well. Like every shot on a golf course, we need to support a culture which encourages staff to report it when they make a mistake or something goes wrong, and critically assess how it can be done better the next time. Only through this focus on continual improvement can we minimize organizational risks and lower our handicaps.

Regards,

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