

### How Not to Be a Titanic: Risk and How to Manage It

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There is tremendous value in risk. It's required to do new things, including start a venture, take on additional responsibilities, or make an investment. It's important to be realistic about your risk, if you think something can't happen to you, you improve your chances that it will. Think of the Titanic; everyone was so sure the ship was unsinkable, they failed to take basic precautions against a disaster. And even when disaster struck, lifeboats were launching half empty because so many believed so firmly in the unsinkable story despite the cold hard truth invading the hull.

Then think of the BP oil spill in the Gulf of Mexico. Eleven people were killed in the initial explosion, followed by a spill that flowed unabated for three months, and continues to seep to this day. It's estimated that 53,000 barrels were lost every day for the first three months before they were able to cap it. I make no secret of the fact I don't know the first thing about capping an underwater oil well, but it seems to me that given the magnitude of a spill, having double or triple redundancies in place would have been prudent from a financial perspective, not to mention a safety, environmental and ethical perspective. Last week a US judge said he was thinking of granting the settlement at just under \$8 billion dollars, that's in addition to whatever it actually cost them to stop the flow of oil and clean up as much as they did, not to mention the very long term damage to their reputation. Did their risk planning estimate this? If it had, would they have done things differently?

Opponents to the Enbridge Pipeline typically cite the likelihood of a spill as their number one objection to the project, fuelled by what they say are the limited number of permanent jobs. In other words, to them, the potential benefits don't outweigh the risks. I wonder if the project could be built in a way that is more robust, and less risky. This would cost more initially, but perhaps the gains would be even greater long term. Alternatively do the opponents to a pipeline consider the risk of shipping that same product by train or truck? Which of those options is least risky? Which is most ethical?

In any case, my advice is to take risks seriously, trusting that something is going to go wrong sometime. Be as prepared as you can within the bounds of reason and good business, without forgetting the interests and safety of your employees, your community and your shareholders. If you do ignore the possible risks, you may be held to account in a way that was never worth the potential gains.

risk = the likelihood of occurrence x the magnitude of the impact

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When I do a risk assessment I typically consider operational, reputational and financial risks. My chart looks something like this:

	Risk	Likelihood of occurring (H,M,L)	Magnitude of Impact	Mitigation Strategies
Financial Risks				
Operational Risks				
Reputational Risks				
Other Risks				

I enter everything I can think of from economic collapse or stagnation to system failure, or a labour walk-out. Up north you'll consider a shortage of skilled labour, a spike in transportation costs, an early winter or late spring, or an economy that is not sufficiently diversified. When considering the "magnitude of impact," you should describe the possible impact and rate it, perhaps on a scale of 1-5 or high, medium or low, and the same goes for "likelihood of occurring." Is the likelihood that the risk will actually happen high, medium or low?

A partial list of things of things to consider:

- Safety
- Environment
- Customer loyalty
- Change in customer preferences
- Customer stability
- Supplier stability
- Market downturn
- Industry projections
- Interest rate rises
- Significant rises in fuel or labour costs
- Labour shortages
- Change in tools and technology
- Transportation failures

Once you have identified the risk you need to work on the mitigation. What will you do to ensure this risk doesn't happen, and if it does, how can you be prepared to react quickly and minimize the damage? In the case of sawmills across BC, it means a more robust cleanup program to ensure that dust from beetle kill wood is controlled. If you are at risk for some kind of scandal that might reach the media, a good working relationship with a public relations professional who can help you react quickly to

anything in the media should be in order. When I worked for the Olympic Games in 2010 we were uncomfortable with the preparation of those we were reporting to so we put in place a flexible management model where supervisors could be stepped up to managers at a moments notice. We put this plan in to place the first morning of operations and it proved critical to our success.

Of course you can't anticipate everything. And you shouldn't put too much effort in to something that will have little impact and isn't likely to happen. But did you know Ford determined it was a better business decision to pay the settlements than issue a recall on the flaming Pinto? (*Time Warner*) Even if the chances of an event occurring are low, but the impact is potentially catastrophic, be prepared and consider the ethical implications, there may be more than the future of your company at risk.

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