



# Using Risk Metalanguage to Develop Risk Responses

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In order to understand a risk fully it is helpful to identify its causes as well as its effects. *Risk metalanguage* can help by separating *cause-risk-effect* in a three-part description, such as "Because of <one or more causes>, <risk> might occur, which would lead to <one or more effects>." This structured description not only ensures clear definition of the risk, but can also be useful when developing responses.

There are four basic types of risk response:

1. Aggressive responses, either to *avoid* a threat by making it impossible, or to *exploit* an opportunity by making it definitely happen
2. Involving a third party to manage the risk, either *transferring* a threat, or *sharing* an opportunity
3. Changing the size of a risk, tackling probability and/or impact to *reduce* a threat or *enhance* an opportunity
4. Taking residual risks which cannot be managed proactively or cost-effectively, *accepting* either a threat or an opportunity

Each of these strategies can be linked to the cause-risk-effect structure. For threats (i.e. risks with negative impacts) this means the following:

- Avoidance can be achieved by removing or changing a *cause*, or by breaking the *cause-risk link* so that the threat is no longer possible. For example risks arising from lack of expertise might be avoided by outsourcing or partnering. Exchange-rate risk might be removed by using only local currency.
- Transfer tackles the *risk* itself, by involving others in its management, though it does not change the risk directly. Insurance is the classical example of threat transfer, though contract terms can also be used.
- Reduction targets the probability of a threat by seeking to weaken the *cause-risk link*, or aims to minimise negative impact by addressing the *risk-effect link*. For example, knowing that use of a new supplier creates the risk of misunderstood requirements, familiarisation workshops can be held to make this less likely.
- Acceptance focuses on the *effect*, recognising that some threats are not controllable and might happen. This strategy might simply involve setting aside contingency funds to recover from negative impacts, or could involve developing a specific fallback plan to be implemented if we were unlucky and the threat occurred.

Similar thinking applies to opportunities (i.e. risks with positive impacts):

- Exploit the opportunity by leveraging its *cause* so that the opportunity is realised. For example a positive decision might be taken to include an optional item in the scope of a project to create additional benefit.
- Sharing an opportunity addresses the *risk* part of the cause-risk-effect chain, by getting others involved in managing the opportunity, perhaps through a risk-sharing partnership or incentivised contract.
- Enhancing requires either strengthening the *cause-risk link* to increase the probability that the opportunity will occur, or reinforcing the *risk-effect link* to maximise its positive impact. If attending a trade show creates the opportunity for new business, action can be taken to maximise visibility and attract contacts.
- Accepting that an opportunity cannot be influenced proactively means that attention is focused on its *effect*. Contingency funds might be allocated to take advantage of positive impacts, or a specific fallback plan could be developed for use if we were lucky and the opportunity happened.

The value of risk metalanguage in risk identification is already well-known. Now the same technique can provide a framework for development of appropriate responses to both threats and opportunities, ensuring that actions effectively achieve the desired results.