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FROM CHAOS TO COMMAND: RISK LEADERSHIP IN INDUSTRY 6.0

RISK APPETITE OR RISK DELUSION? ALIGNING TOLERANCE WITH TRUE LEADERSHIP PRIORITIES

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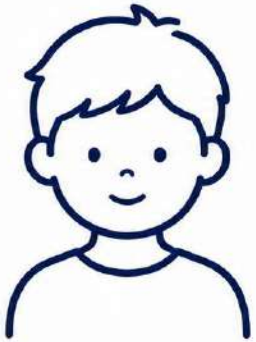
Different People, Different Risk Appetites



Child

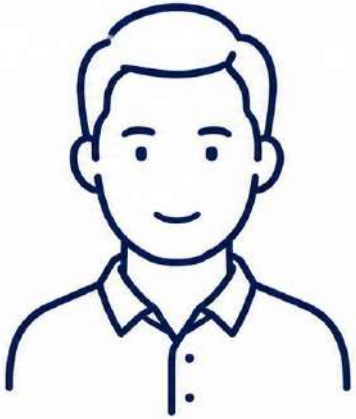
High

"Lets climb that tree!"

Teenager

Very High

"Bet I can go higher!"



Parent

Moderate

"Just don't get hurt"

Grandparent

Low

"Get down from there!"

Same Risk. Different Appetite.

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The Bicycle Lesson

Should I Stop My Child From Riding A Bicycle?

Option 1

No Riding

- ✗ No fails
- ✗ No learning
- ✗ No Growth

Option 2

Controlled Risk

- ✓ Helmet
- ✓ Training wheels
- ✓ Supervision
- ✓ Safe environment

Result:

- ✓ Learning
- ✓ Confidence
- ✓ Growth

Good parents don't eliminate risk.
They decide what risks are worth taking and how they should be managed.

Organizations Face The Same Challenge

Risk appetite answers one simple question:

> "How much **uncertainty** are we willing to **accept** in pursuit of our **objectives?**"

Risk appetite is not primarily:

- ❌ A regulatory requirement
- ❌ A reporting framework
- ❌ A Board paper

It is a decision-making tool.

The Real Question

If your Risk Appetite Statement disappeared tomorrow,

Would any decisions change?

- Strategic investments
- Market expansion
- Product approval
- Technology investments
- Outsourcing decisions

If the answer is "No"…

Your risk appetite may be documented,

But Not Embedded.

The Three-Appetite Problem

DECLARED APPETITE

What the Board approves.

PERCEIVED APPETITE

What employees believe leaders want.

ACTUAL APPETITE

What leadership rewards and tolerates.

People follow behaviour more than policy

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Why Organizations Do Not Follow Risk Appetite

1. **Incentives Beat Policies**
People do what gets rewarded

2. **Growth Pressure Changes Behaviour**
Targets can override caution

3. **Appetite is Too Generic**
"Low appetite" often doesn't guide decisions

4. **Not Embedded into Decisions**
Risk committees see it, managers often don't

5. **Leadership Behaviour Sends Wrong Message**
Actions always speak louder than statements

> "Employees don't learn risk appetite from policies.
>
> They learn it from **leadership behaviour.**"

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Case Study: Wells Fargo

Stated Appetite

- Low conduct risk
- Low compliance risk
- Low customer harm

Actual Behaviour

- Aggressive sales targets
- Incentives driving behaviour
- Pressure to cross-sell

Outcome

- Unauthorised customer accounts
- Regulatory penalties
- Significant reputational damage

LESSON: Incentives become the real risk appetite

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Case Study: Netflix

Strategic Decision

Netflix chose to:

- Move from DVD to streaming
- Disrupt its own business model
- Invest heavily in original content

Risk Taken

- High strategic risk

Outcome

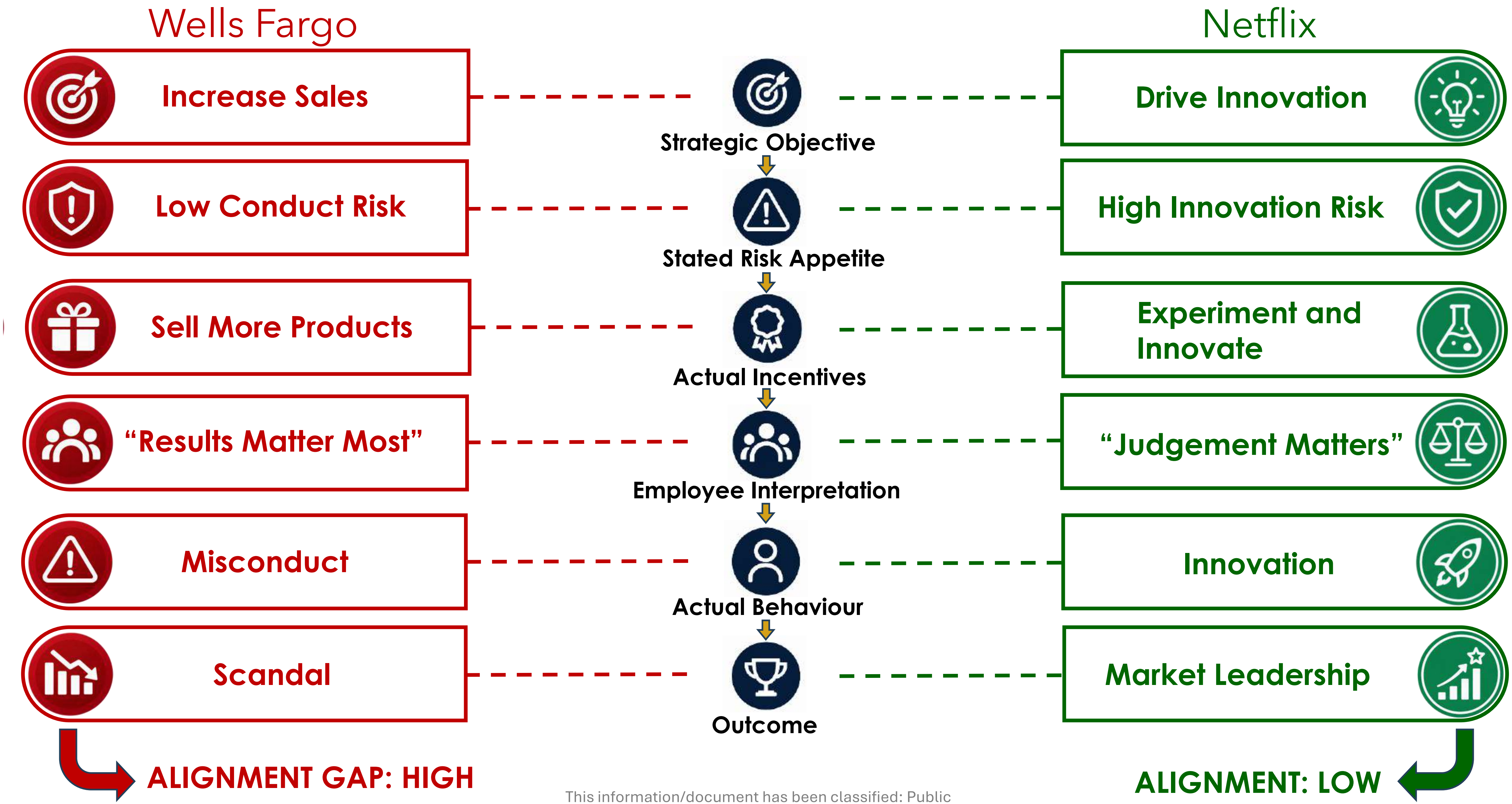
- Industry leadership

The question is not:
"How do we avoid risk?"

The question is:
"Which risks are worth taking?"

LESSON: Risk appetite should not prevent risk-taking. It should enable informed risk-taking

Wells Fargo vs Netflix: Why One Succeeded and the Other Failed?



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How To Make Risk Appetite Matter

CONNECT APPETITE TO STRATEGY
What risks must we take to achieve our girls

EMBED IT INTO DECISIONS
Not just reports

ALIGN INCENTIVES
Behaviour follows rewards

MONITOR LEADING INDICATORS
Not only breaches

DEFINE ACTIONS
Green > Continue
Amber > Escalate
Red > Act

Risk appetite should influence decisions before risk events occur

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Conclusion

Returning to my family.

As parents, success is not measured by the rules we write. Success is measured by the quality of decisions those rules support.

Organisations are no different

Final Takeaway

Most organisations do not fail because they have the wrong risk appetite. They fail because their actual behaviour is inconsistent with their stated risk appetite

Risk Appetite Is Not A Statement About Risk.
It Is A Statement About Choices.

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Questions and Discussion

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