H4 Consulting Brief

Balancing the Risk Ledger

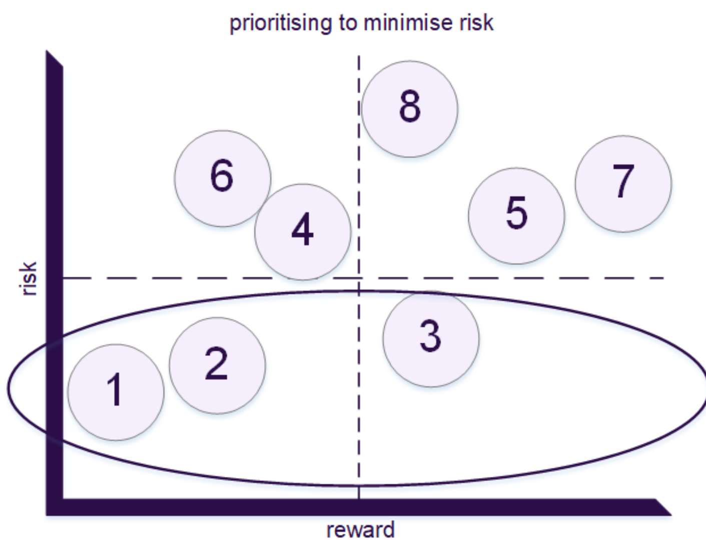
There are risks in every decision or action, even doing nothing. Publicly funded organisations are often seen as particularly risk averse, seeking to avoid or minimise risk rather than recognising that risk is part of the price we pay to create public value. The critical question to inform an action or decision should not be whether there are risks, but whether the potential benefits are worth the risks. That means considering both sides of the risk-reward ledger.

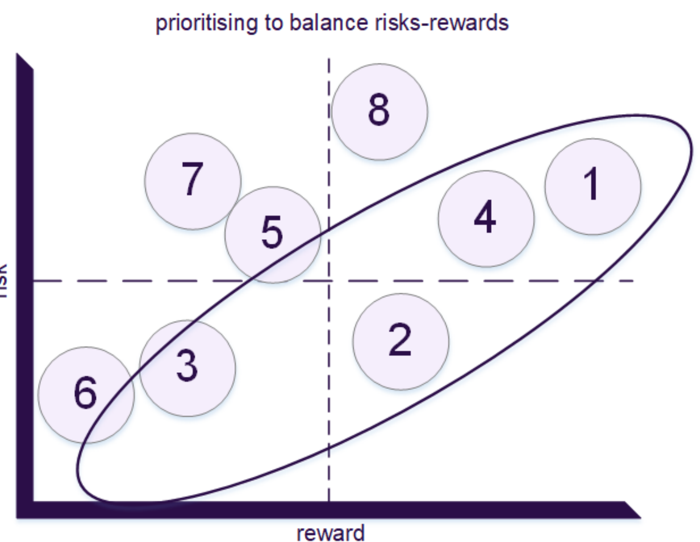
Publicly funded organisations tend to work on the premise that risking public funds, or public outcomes, should be avoided or at least minimised. It is easy to conflate maximising public value over the medium to long term with minimising short-term risks of any kind, including the risk that stakeholders will be unhappy or that an initiative might fail.

Personal or organisational reputational risk is often weighted too heavily, which tends to increase the perceived risk of change relative to maintaining the status quo, because it is easier to assign blame for action than inaction. This tends to be reinforced by political leaders who are concerned about re-election.

Focusing too much on avoiding risk can lead decision makers to ignore, or discount, the reward side of the ledger. This unbalanced assessment can mean that proposals with some risk, but very high potential rewards, are rejected without due consideration.

A culture that internalises a principle that the least risky path is the best is also less likely to recognise or act on opportunities for improvement or innovation. This can mean that an ongoing policy, program, or service must fail spectacularly before the risks of the status quo are exposed and addressed. This can ultimately lead to worse outcomes in both the short term and long term.





Risk is an everyday cost of doing business, so publicly funded organisations should think about risk more like a budget to be allocated to maximise rewards, and less like a danger to be avoided or minimised.

A balanced investment portfolio mixes low, medium, and high-risk financial investments to maximise returns over the medium to long term. Public value is more complex than financial returns, but the same principles of balancing risk and reward over time apply in all but the most extreme examples of potential harm to vulnerable individuals or groups. Analysing both sides of the risk-reward ledger gives us the opportunity to spend risk wisely and buy more value.

Maximising returns means managing risk the way we manage money, by considering both the cost of a transaction and the value we get from it. Optimising rewards from the risks we take means recognising that our budget for risk, including the risk of maintaining the status quo, is finite. We must consider carefully how best to allocate our risks to maximise rewards.

Just like money, spending risk responsibly to create public value does not mean trying to spend as little as possible; it means spending on the mix of options that give the best overall return on investment. We can only make informed decisions about that mix by considering both sides of the risk-reward ledger.

To find out more about how you can use this approach in your organisation, contact us: info@h4consulting.com.au
Find additional resources at www.h4consulting.com.au/resources

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