

The consequences of getting consequence wrong

I've always thought consequence was the easy part of the risk process. Understandably and sensibly, you have to work very hard with a client to properly assess likelihood. But the client usually has a basic understanding of consequence that can be informed by your knowledge and experiences to obtain a very good result. If a client organisation doesn't have a formal grasp of consequence definitions, you can work with their understanding of their business to develop them. But recent briefings on risk management to senior management and the repercussions for BP and the US Administration from the oil spill in the Gulf of Mexico, have caused me to rethink my view on consequence.

What's easy about consequence is developing the consequence definitions. While you can't mitigate the consequence if you haven't considered the risk scenario, what's hard is mitigating the consequence of a risk event – particularly a strategic risk event that could threaten your organisation's existence. We practitioners always say mitigating consequence is expensive – and it's true. But getting a client to agree firstly, on the potential consequences of a strategic risk event like the oil spill, and secondly, on the requirement to spend large amounts of money on identifying workable mitigation, isn't always easy. But think of the changed circumstances that BP would be facing in the gulf now if it had identified this risk scenario when conducting its risk workshops in 2004, spent the necessary funds to test and identify a viable solution, and had that solution ready to implement when the rig exploded and finally the blow out preventer failed to cap the well. BP has reportedly spent one \$US billion thus far, and is advising that it will remain in the gulf for the long haul to do whatever it required to rehabilitate the environment. When combined with the impact on their share price, the lack of confidence in the company now in the US, this failure in consequence mitigation has been an unmitigated disaster.

Hopefully, none of our clients will face disasters like this one. But if they undertake operations in dangerous environments or have the potential through their operations to cause significant negative impacts, they should heed the salutary lessons of BP in the gulf. Even operations on a lesser scale should look again at their risk processes and review their consequence actions. The consequences of getting consequence wrong are increasing all the time.