POZNIAK
Safety Associates Inc.

RISK MANAGEMENT:
A Managers Guide to Risk

INTRODUCTION TO RISK

Every time as a manager you make a decision - you in fact create a risk. Have you made the right decision and can you manage it to a successful outcome. Risk is inherent in everything we do, whether it is riding a bicycle, managing a project, dealing with clients, determining work priorities, purchasing new systems and equipment, taking decisions about the future or deciding not to take any action at all. We manage risks continuously, sometimes consciously and sometimes without realizing it.

The need to manage risk systematically applies to all organizations and individuals and to all functions and activities within an organization. This need should be recognized as of fundamental importance by all managers and staff. The alternative to risk management is risky management, or making reckless decisions, or decisions that are not based on a careful consideration of the facts. Risky management is unlikely to ensure desired outcomes.

Management cannot avoid risk. But risk is as much about maximising opportunities as it is protecting against loss.

Generally the focus on risk management is for people to look at the negative and if we really examine what risk is about, risk is the chance of something happening that could impact on our objectives. It is really important to have those objectives as our primary focus because then our focus in risk management is going to be more opportunity based.

APPLICATIONS OF RISK MANAGEMENT

The risk management process can be applied to decisions in all organizations, and at all levels in an organization (that is, at the organization, department, team and individual level). The risk management process can also be applied to an activity or function. Risk can be considered, formally or informally, for any decision.

Typically, the risk management process should be applied when planning and making decisions about significant issues. For example, when considering changes in policy, introducing new strategies and procedures, managing projects, or expending large amounts of money.

Risk management has a range of applications including:

a. Health and Safety
b. Environmental Issues;
c. Purchasing and Contract Management.
d. Public Risk and General Liability;
e. Strategic, Operational and Business Planning;
f. Asset Management and Resource Planning;
g. Business Interruption and Continuity;
h. Design and Product Liability;
i. Directors' and Officers' Liability;
j. Public Policy Development;
k. Ethics, Fraud, Security and Probity Issues;
l. Resource Allocation;
m. Feasibility Studies;
n. Compliance;
o. Operations and Maintenance Systems;
p. Project Management.

STANDARDS

The formal documentation of the risk management process is published by International Organization for Standardization (ISO) as “ISO 31000:2009 Risk Management- Principles and Guidelines on Implementation”.

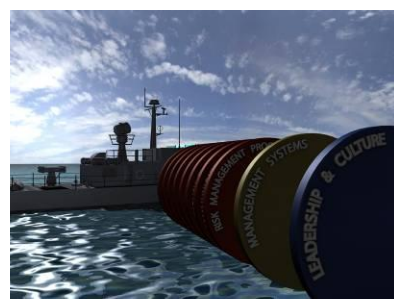
The purpose of ISO 31000:2009 is to provide principles and generic guidelines on risk management.

ISO 31000 seeks to provide a universally recognised paradigm for practitioners and companies employing risk management processes to replace the myriad of existing standards, methodologies and paradigms that differed between industries, subject matters and regions.

ISO 31000:2009 can be applied throughout the life of an organization, and to a wide range of activities, including strategies and decisions, operations, processes, functions, projects, products, services and assets.

ISO 31000:2009 can be applied to any type of risk, whatever its nature, whether having positive or negative consequences.

SCREENS



An organisation can manage risk by screening out events which can either cause harm or which can reduce the chance of getting the best possible outcome.

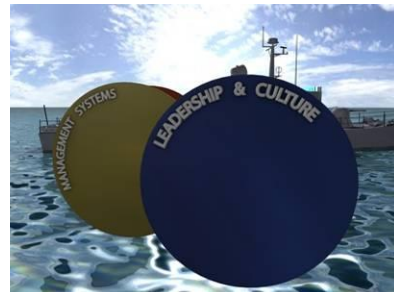
One screen is the ‘leadership’ of the organisation.
Another screen is the organisation’s ‘management systems’.
The most effective screen is an explicit risk management system and is made up of seven essential steps which include:

- Communication and consultation
- Establish the context
- Identify the risks
- Analyse the risks
- Evaluate the risks
- Treat the risks
- Monitor and Review

The integrity of each screen can mean success or failure. Any cracks or holes could allow an event to occur which affects the organisation’s performance in pursuit of its objectives. And, sometimes, a diabolical combination of factors can come together, to trigger a major disaster.

Every organisation has a unique set of objectives, challenges, opportunities and, of course, risks.

LEADERSHIP AND CULTURE



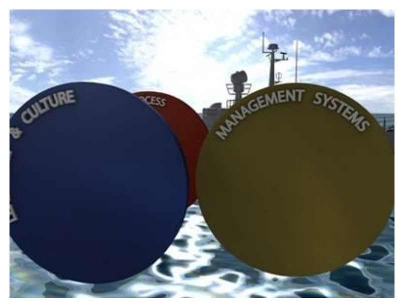
Leadership determines the direction and culture of the organisation. Leaders need to promote common goals and empower individuals at all levels to act.

“Leaders create and change cultures, while managers and administrators live within them”

The role of leadership is setting up the appropriate infrastructure and framework that is appropriate for the business to allow people to manage the risk, setting the tone from the top, really giving the definition of focus of what type of risk planning they would like and secondly looking at the risk information to ensure that that’s moving around the organisation to where it needs to go and being escalated to the right level.

It’s up to the various levels of management to in fact get out and convince their people that yes we are serious about the management of risk, that yes, I expect you to tell me the bad news and the really ugly news so that I can make better decisions rather than wait for things to happen.

MANAGEMENT SYSTEMS



Management systems, standards, procedures and practices, as well as industry and government requirements all have an implicit role in risk management.

For any organisation many management systems will exist including financial management systems, production management systems, quality management systems, environmental management systems, purchasing management systems, maintenance management systems and occupational health and safety management systems.

Within a site the management of occupational health and safety would include specific systems for management of hazards and their associated risks such as electrical and chemical hazards, and for the management of rehabilitation, medical services and emergencies as examples.

The components of a system are very variable and are dependent on what the system manages and intends to achieve. Systems are therefore fairly complex as they should contain all of the components necessary to cover all issues in the management of a particular area.

What are the risks that I have to manage? If they happen to be quality, environmental or occupational health and safety then there are standards available for me to go to and help me manage those risks to put in systems to show that I am in fact managing those risks.

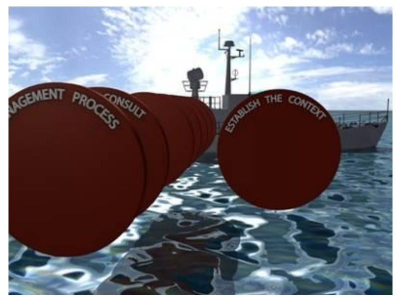
THE RISK MANAGEMENT PROCESS

COMMUNICATION AND CONSULTATION

Communication and consultation with internal and external stakeholders is the first step of the Risk Management Process. It is also essential to every step in the process.

Involvement allows the ‘ownership’ of risk by managers and the engagement of stakeholders. It allows them to appreciate the benefits of particular controls and the need to endorse and support a treatment plan.

ESTABLISH THE CONTEXT



No matter what an organisation does, it interacts with a wider environment. What industry sector is it in? Who are its stakeholders? What are its capabilities?

Establish the risk management context

The goals, objectives, strategies, scope and parameters of the activity, or part of the organization to which the risk management process is being applied, should be established. Establishing the context defines the basic parameters within which risks must be managed and sets the scope for the rest of the risk management process.

External environment

This step defines the external environment in which the organization operates. It also defines the relationship between the organization and its external environment.

Internal environment

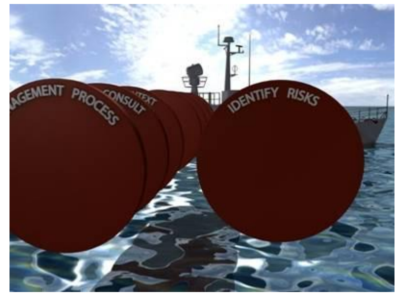
Before a risk management activity, at any level, is commenced, it is necessary to understand the organization.

Develop risk criteria

The context also includes establishing the risk criteria, for example the kinds of consequences to be considered.

Risk management context then comes down to, what’s our appetite for risk? One of the things that the board and the CEO has to clearly establish is what are the parameters of our risk tolerance? At what stage are we going into aversion at what stage are we going into recklessness?

IDENTIFY THE RISKS



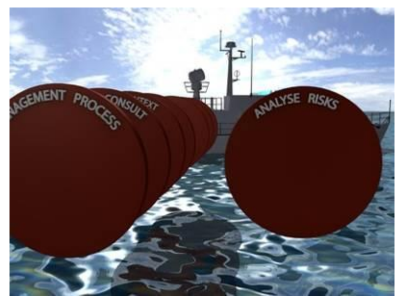
A risk that has not been identified cannot be managed.

This step seeks to identify the risks to be managed. Comprehensive identification using a well-structured systematic process is critical, because a risk not identified at this stage may be excluded from further analysis. Identification should include risks whether or not they are under the control of the organization.

When we start to formalise risk management then we start to use more formalised tools and techniques such as looking at process mapping, looking at task analysis, taking the information out of our SWOT analysis and looking at the weakness and threats and turning those into risks.

Really putting a little bit more structure around the risk identification activity.

ANALYSE THE RISKS

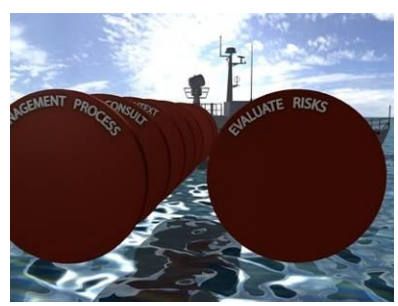


The aim of risk analysis is to estimate likelihood and consequences in the context of any existing control measures.

Risk analysis is about developing an understanding of the risk. It provides an input to decisions on whether risks need to be treated and the most appropriate and cost-effective risk treatment strategies.

Risk analysis involves consideration of the sources of risk, their positive and negative consequences and the likelihood that those consequences may occur. Factors that affect consequences and likelihood must be identified. Risk is analysed by combining consequences and their likelihood and existing controls are taken into account.

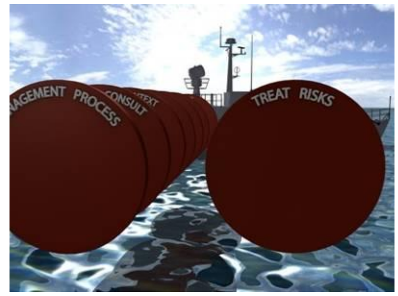
EVALUATE THE RISKS



The output of risk evaluation is a prioritised list of risks for further action.

Risk evaluation involves comparing the level of risk found during the analysis process with risk criteria established when the context was considered. No organization has limitless resources to take advantage of opportunities or to deal with adverse risk. It is therefore necessary to define priorities. In some circumstances, the risk evaluation may lead to a decision to undertake further analysis.

TREAT THE RISKS



The purpose of risk treatment is to change the risk to a level where the benefit exceeds the cost of treatment.

Risk treatment involves identifying the range of options for treating risks, assessing these options and the preparation and implementation of treatment plans.

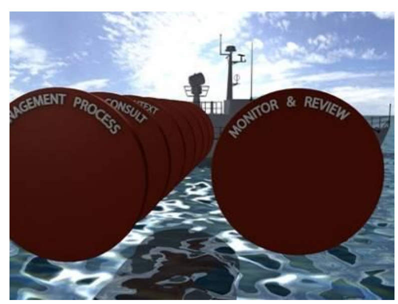
Having done your risk assessment where you have identified, analysed and evaluated your risk, you now have to make a decision. Is the risk now at a tolerable level? Or in fact does it require additional treatment to get it to a tolerable level?

Identifying options for treating risks may include:

- Avoiding the risk by deciding not to start or continue with the activity that gives rise to the risk (where this is practicable).
- Changing the likelihood of the risk.
- Changing the consequences
- Sharing the risk.
- Retaining the risk.

What we need to do is identify the most effective treatment strategies. Now if we're to do that, that really needs to be linked back to the risk identification stage, the causes of the actual risk, the root cause. Risk treatment is based on an understanding of how risks arise. This includes a need to look at organisational culture.

MONITOR AND REVIEW



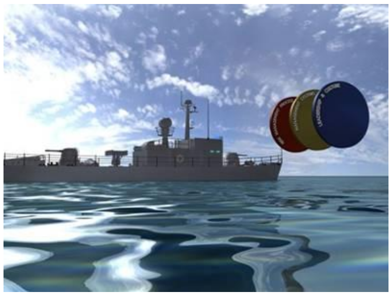
The final step in the process is to monitor the risk management strategy, plans and practices. Are there new risks? Will the risk treatments still be effective?

Each stage of the risk management process should be recorded appropriately. Assumptions, methods, data sources, analyses, results and reasons for decisions should all be recorded.

The records of such processes are an important aspect of good corporate governance and due diligence.

So the monitoring and review is part of good management but it is an integral part of risk management because you've got to make sure you still understand - what are your risks and what are you doing to manage them.

RISK MANAGEMENT KEY MESSAGES AND CHALLENGES



Key messages include:

- There are risks to be managed in all activities.
- Everyone is responsible and accountable for managing the risks in their activities.
- People should be encouraged and supported by their leaders to manage risks.
- ISO 31000 provides a framework or systematic approach for making decisions about how best to manage risks.
- Legislative requirements and the economic environment need to be considered when managing risks.
- Action taken to manage risks should be integrated with (not be separate from) existing planning and operational processes at all levels.
- Effective risk management relies on quality information.

The challenge for managers is to support and encourage prudent risk management by—

- playing an active part, and not simply mandating production of reports;
- empowering subordinates and staff to manage risks effectively;
- acknowledging, rewarding and publicizing good risk management;
- having processes that promote learning from errors, rather than punishing;
- encouraging discussion and analysis of unexpected results, both positive and negative;
- not over-responding to problems by introducing restrictive or blanket controls.

It's up to every manager, everybody with a delegation to clearly understand what are the risks that they manage and to make sure that they are managing them to achieve their objectives. Managers must consistently signal that—

- risk management is everyone's business;
- risk management is part of business as usual, not an add on or additional burden; and
- the process for managing risk is logical and systematic and should become a natural practice

The greatest risk though is to take no risk at all.
Because if we don't take risk there is no profitability no advancement, no progress.

POZNIAK
Safety Associates Inc.

CONTACT DETAILS

Pozniak Safety Associates Inc.
8B-#181, 3110-8th St. E.
Saskatoon, SK.
S7J 0W2
Email: info@pozniaksafety.com
Website: www.pozniaksafety.com