

Risk Management and the Business Management System

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There are multiple standards and books available to guide you on Risk Management and therein lies a problem; which approach should you adopt?

Risk Management approaches exist for specific industry sectors (such as oil & gas, which are safety case driven and covered by ISO17776:2000) and functional aspects (such as Supply Chain Management), whereas a generic Risk Management best practice is described in ISO 31000:2009, and so you need to choose the approach that best suits you. The methodology that I will discuss here is another generic approach known as Management of Risk (M_o_R) and is part of a series of best practices originating out of the UK's Office of Government Commerce.

Overview

The Management of Risk methodology provides a route map bringing together principles, an approach, a set of inter-related processes and pointers to more detailed sources of advice. It also provides advice on how these principles should be embedded, reviewed and applied differently, depending on the nature of the objectives at risk.



Principles

There are 12 principles that aid and influence Risk Management Practices. The first five principles form the foundation of the process and must be in place.

- **Organisational Context:** this must be understood in order to be able to identify the risks that are relevant.
- **Stakeholder Involvement:** increasingly complex activities have increasing numbers of stakeholders, all of whom need to be taken into account.
- **Organisational Objectives:** Risk Management should strive towards ensuring that these objectives are met
- **Reporting:** without timely communications the management team cannot make effective informed decisions
- **M_o_R Approach:** Processes need to be introduced and tailored to meet the organisations needs
- **Support Structure:** A central risk function (a 'centre of excellence') should be established to support the process
- **Early Warning Indicators:** Risk Management should be proactive and action should be triggered by occurrence of predetermined events
- **Overcoming barriers to M_o_R:** The existence of policy, process and procedure will be insufficient. A programme of change, including training and policing, will be required
- **Supportive Culture:** A culture of risk management will need to be engendered, with senior management leading by example and risk management becoming part of everyone's day-to-day activity
- **Roles and Responsibilities:** Resources should be committed with a clear understanding of what their roles are
- **Continual Improvement:** The management team should set Risk Management maturity objectives and use reviews and other experience to continually improve the operation of the process.

The following six principles are developed as the process is 'continually improved'.

Process

Identify: Risk Context Setting: your aim is to obtain information about the planned activity, including objective, scope, assumptions, completeness of information, stakeholders and their objectives, how the activity fits into the business model, the company's external environment and the approach being taken to risk management.

Identify: Risk Identification: now you need to identify the risks that would reduce or remove the likelihood of the company reaching its objectives whilst maximising the opportunities that could lead to improved performance.

Assess: Estimate Risk: the goal here is to assess the threats and opportunities to your company in terms of their probability, impact and proximity.

Assess: Evaluate Risk: here you aim to understand the net effect of the identified threats and opportunities on an activity when aggregated together.

Plan Risk Control: now you should prepare specific management responses to the threats and opportunities identified, ideally to remove or reduce the threats and to maximise the opportunities.

Implement Risk Control: finally, you should ensure that the planned risk management actions are implemented and monitored as to their effectiveness and that corrective action is taken where responses do not meet expectations.

Communicate: this deliberately stands alone as the findings of any individual step may be communicated to management for action prior to the completion of the overall process.

Embed and Review: having put in place the process and its principles, the organisation must ensure that they are applied consistently across the organisation and that their operation undergoes continual improvement in order for them to be effective.

How AgilityBMS supports a Risk Management Process:

The use of an intelligent Business Management System supports a number of the M_o_R principles:

- The M_o_R approach can be defined and documented within the iBMS, along with supporting templates and guidelines
- Roles and Responsibilities can be defined within the AgilityBMS and linked directly to the activities
- Terms of Reference for the Risk Management and Risk Review Boards can be held within AgilityBMS and associated with the activities
- The nature of the AgilityBMS design allows Risk activities to be built into or referenced from other Process Maps, allowing Risk to become part of peoples individual day-to-day activities
- Policies can be published within the AgilityBMS and be referenced from within the relevant Process Maps
- The easy accessibility of documentation makes training simple, and the number of times the Process Maps are accessed can be monitored;
- The feedback mechanism makes the reporting of deficiencies or improvements easy to report, and the nature of the software makes changes quick and easy to do. Once the change is complete, it is simple to publish, and the end users are notified of the change.

If you are following a standard that requires risk assessments, such as ISO 14000:2004, agility's compliance module allows you to cross-check your processes against the requirements of that standard.

AgilityBMS Risk Module

Allows you to directly manage risk at the project/operational level. Where risk is identified, a marker can be set within a process map, warning the user and outlining the nature of the risk. The module allows you to record, allocate and assess the risk. Once a control is designed, that control can be associated with the risk, ensuring that the process user undertakes the appropriate mitigating actions until the risk is eliminated (in which case it can be easily removed) or controlled (the marker and control remain in place).

Is AgilityBMS for You?

Risk, and the management of risk, is part of our everyday lives, and although we are unlikely to undertake formal assessments whilst deciding when to cross the road or not, our lives depend on our ability to effectively assess risk.

The same applies to business, but even more so, as business risk is far more diverse and not related to the decisions that we automatically take every day. The impact on business is well described by this quote from the foreword of the OGC Manual on the Management of Risk1:

“In this rapidly changing world, a status quo is unrealistic, and failure to identify and explore new opportunities is a risk in itself. The difference between a thriving, growing business and stagnation could be the willingness to embrace a risk taking culture that allows your organisation to develop opportunities for innovation while taking timely and appropriate action in the face of threats to achieving your business objectives”.

The Author is a member of BusinessPort's Process Improvement Team and deploys these principles into corporate clients on a global stage.