

## **An introduction to Risk** by Brad Bamfield, The Solution Organisation

### **Introduction**

There is Risk in everything we do but identification of the Risks to your business and considering possible actions to address these Risks will help your business enormously.

This short paper will look at what Risk is and offer a process to identify the Risks you face and how to deal with them to your benefit and lets not beat around the bush that means profit.

Risk is faced by all organisations large and small and the following sections applies to all businesses. The language is a bit formal in places and some descriptions may not apply to you.

Remember there are many Risk processes and we offer just one option. Use the one that suits you best – but the important point is use one.

### **Definition of Risk**

A simple definition is;

A Risk is anything that will have a bad, or good, impact on the Objectives, Goals or Strategies of an organisation or an activity.

### **Risk at a Basic Level**

At the most basic level the Risk process can be summarised by asking one simple question –

“if I do this what can go wrong?”

And then;

- 1 try and find a way to stop what can go wrong from actually happening.

If you can not stop it happening then;

- 2 Find a way to reduce the likelihood it will happen
- 3 Find a way to reduce the impact if it does happen

That is the simple view now we will make it appear a bit more complex.

## **Risk Process Decisions**

A certain amount of risk taking is inevitable if your organisation is to achieve its objectives. Effective management of risk helps you to manage innovation and change, and improve performance by contributing to:

- increased certainty and fewer surprises
- better service delivery
- more effective management of change
- more efficient use of resources
- better management at all levels through improved decision making
- reduced waste and fraud, and better value for money
- innovation
- management of contingent and maintenance activities.

The key areas that have to be addressed are:

- the requirements of corporate governance – these include more focused and open ways of managing risk
- the need for a ‘risk owner’ at senior level for an activity (strategy, programme or project) and the need for risk owners at everyday working levels as appropriate for the activity and risk exposure
- consideration of the organisational capability to successfully achieve the required outcome
- the need for improved reporting and upward referral of major problems
- the need for shared understanding of risk and its management at all levels in the organisation together with business partners and key stakeholders.
- consistent treatment of risk across the organisation.
- managing project risk in the wider context of programmes of change and the business.

## **Critical Success Factors for Management of Risk**

The key elements that need to be in place include:

- nominated senior management individuals to own the risk management process, lead on risk management and support all staff using the Risk process
- risk management policies, and the benefits of following them, clearly communicated to all staff
- existence and adoption of a framework for management of risk that is transparent and repeatable
- existence of an organisational culture that supports well thought out risk taking and innovation
- management of risk fully embedded in management processes and consistently applied
- management of risk is intrinsically linked to achievement of objectives, goals and strategies
- risks associated with working with other organisations specifically assessed and managed
- risks actively monitored and regularly reviewed on a constructive ‘no-blame’ basis.

Appropriate use of business continuity and contingency plans is an important element of the management of risk. So there are likely to be success criteria identified with regard to:

- building in a risk allowance based on the risk assessment. These funds need to be included in the financial provision. Unused funds for risk allowance can then be reallocated when the activity completes or if the exposure to the related risk disappears
- existence of continuity plans which consider how the business will survive should the outcome not be achieved (this would include looking at what happens if a service should fail to come on stream at the required time, or if the users refuse to make use of the service).

Joint working and partnerships often involve more complex types of risk that can adversely affect the delivery of business services. For example, if part of the service provided by one organisation is delayed or of poor quality, the success of the whole collaboration can be put at risk.

You must make sure that your organisation knows about the risk management approaches of your partners and primary suppliers in your supply chain. Sharing information about risk management means that risks in collaborative programmes can be identified and managed in a proactive way. Link [here](#)

### **Essential elements of risk management**

Risk includes the probability of both good and bad outcomes; the consideration of risk has to be set in the context of opportunity. The task of risk management is to limit the organisation's exposure to an acceptable level of risk by taking action on the probability of the risk occurring, its impact or both. The principles of risk management can be directed both to limiting adverse outcomes and achieving desirable ones.

Your organisation will have a set of key objectives in the OGSMs. Risks should be identified against these Objectives, Goals and Strategies. These risks should then be considered and managed by the appropriate manager.

Management of risk involves having processes in place to monitor risks; access to reliable, up-to-date information about risks; an appropriate level of control in place to deal with those risks; and decision making processes supported by a framework of risk analysis and evaluation.

Risks must be managed in an integrated way at four key levels in order to manage interdependencies – these levels are

- strategic,
- programme,
- project and
- operational.

All risks can be categorised as follows:

- business risk – whatever affects your ability to meet business objectives . These risks are managed by the business and cannot be transferred
- service/operational risk – includes design/build/finance/operate; project risk; these are managed by the party best placed to do so. Providers and customers share detailed plans for managing risks

- external risk – outside your control, such as legislation, changes in provider marketplace; providers and customers produce and maintain plans for mitigating these risks.

The table below shows the levels of risk and examples of typical risks occurring at each level.

<b>Level</b>	<b>Examples of typical risks considered at this level</b>
<b>Strategic/corporate</b>	Commercial, financial, political, environmental, strategic, cultural, acquisition, political and quality risks  Programme, project and operational risks should be escalated to this level against set escalation criteria - e.g. not acceptable, outside agreed limits, could affect strategic objectives
<b>Programme</b>	Procurement/acquisition, funding, organisational, projects, security, safety, quality and business continuity risks  Project and operational risks should be escalated to this level against set escalation criteria - e.g. not acceptable, outside agreed limits, could affect programme objectives
<b>Project</b>	Personal, technical, cost, schedule, resource, operational support, quality and provider failure  Strategic and programme related risks should be communicated to this level where they could affect project objectives.  Project managers should communicate information about project risks to other projects and operations as appropriate
<b>Operations</b>	Personal, technical, cost, schedule, resource, operational support, quality, provider failure, environmental and infrastructure failure.

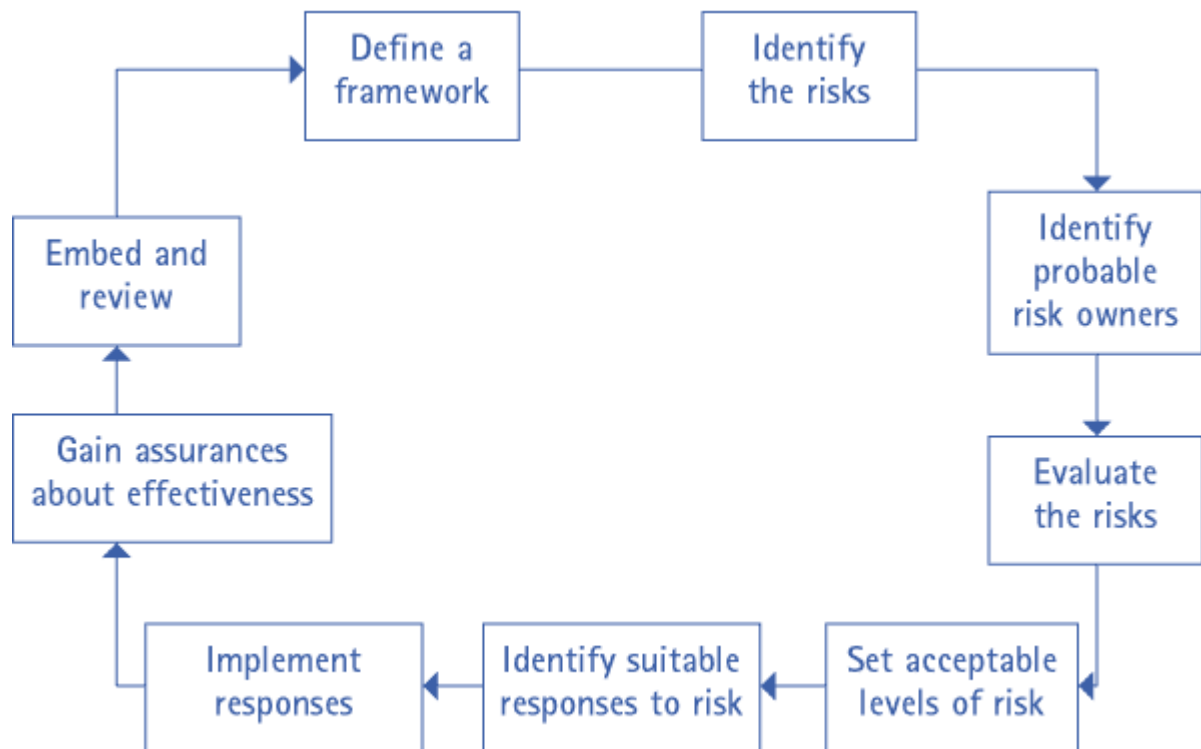
Higher management levels will agree criteria under which an activity is managed. When risks exceed these set criteria – e.g. not acceptable, outside agreed limits, information needs to be escalated so that decisions can be taken.

### **A Risk Management Framework**

The minimum requirements for a risk management framework are:

- existence of the organisation's risk policy
- clear identification of main stakeholders
- clarification of the main approaches to be used to identify; assess and report on risks; as well as look at actions to deal with risks
- clear assignment of responsibilities for managing risk and reporting to senior management, especially risks which cut across core business activities and organisational boundaries
- clear audit trail of decisions to ensure that risk management reflects current good practice, with quality assurance of key decisions as input to audit.

Figure 1 shows a strategic framework for the management of risk



A framework for management of risk sets the context in which risks will be identified, analysed, controlled, monitored and reviewed. It must be consistent with processes that are embedded in everyday management and operational practices. It addresses:

- how risks are identified
- how information about their probability and potential impact is obtained
- how risks are quantified
- how options to deal with them are identified
- how decisions on risk management are made, such as further risk reduction
- how these decisions are implemented
- how risks are subsequently tracked and managed
- how actions are evaluated for their effectiveness
- how appropriate communication mechanisms are set up and supported
- how stakeholders are engaged throughout the process.

The following section looks at the key steps involved in the risk management process and looks at the major issues for those steps.

### **Risk ownership**

- Allocate responsibility at a senior level for managing key risks
- Ensure that every risk has an owner; there may be separate owners for the actions to mitigate the risks
- Ensure anyone allocated ownership has the authority to take on the responsibility and that they are aware that they are the designated owner
- Adopt a mechanism for reporting issues – ultimately to the individual who has to retain overall responsibility

## **Embedding the risk management policy**

- Ensure that risk management is an intrinsic part of the way the organisation works and that this is reflected in the policy
- Keep the policy up to date through review by senior management

## **Risk identification**

- Identify the OGSMs at all levels of the Organisation
- Ensure that everyone involved has a sound understanding of the OGSMs and plans for delivery
- Look at what is at risk and why
- Consider the opportunities opened up by the current activity (e.g. programme or project) as that may also clarify where risk lies
- Aim to identify the 20% of risks that would have 80% of the potential impact
- Check that there are realistic plans for how you can deliver the outcomes required from the activity; check that there is shared understanding of the risks, whilst recognising that customers' and employees' perspectives on risk will not be the same.

## **Risk analysis**

- Assess the probability of risks occurring and their potential impact using the range 1 to 5.
- Plot on 5 x 5 grid and apply the Red, Amber, Green (often called RAG) classification
- Set tolerances for individual risks, with reporting arrangements for escalating problems if risks exceed agreed tolerances. Use the Summary Risk Profile (the 5 x 5 grid) to inform the analysis, support risk referral and subsequently to monitor progress.
- Monitor how Risks move through the RAG classification. Ideally Red should move to Amber and Amber to Green. But that is not always possible see Response below.
- Determine the degree of review required (internal or external) - do we need to review weekly, monthly or quarterly.

## **Response to risk**

Address each risk as appropriate in this preferred order:

- nominate the person best placed to manage it
- terminate it - remove the Risk
- treat it by reducing the likelihood of it occurring or the impact if it does occur to what you consider an acceptable level.
- tolerate it – live with it

Put in place processes that will actively encourage cooperation and open dialogue between customers and providers. Ensure that providers share information about problems at the earliest opportunity so that small issues do not escalate.

## Communication strategy

You will need to ensure that an appropriate communication process and method exists and is used. The strategy for communicating risk should cover all stakeholders and, where directly affected, the public:

- identify who you need to establish channels of communication with, through which you can convey good, and bad, news
- identify whose opinions, positions and interests you should be aware of so that you can tailor the management of issues accordingly and more readily take advantage of opportunities, e.g. identify if the outcome is likely to be adopted by those it is intended to help.

All these steps are contained in the TSO Stakeholder Analysis Process.

## Techniques to Assist the Management of Risk

A wide range of techniques are available to assist in managing risk; for example to analyse risk, to help you to determine your organisation's current capability to manage risk, to assess the complexity of projects that are proposed or currently underway or to assess uncertainty relating to the project.

If the OGSM process is completed fully throughout the organisation there may be Risks at each level and all should be identified.

These Risks should be rated using the range 1 to 5 (where 1 is low and 5 is high) for both Likelihood and Impact. The following tables provide descriptions that help select the correct rating (scale value):-

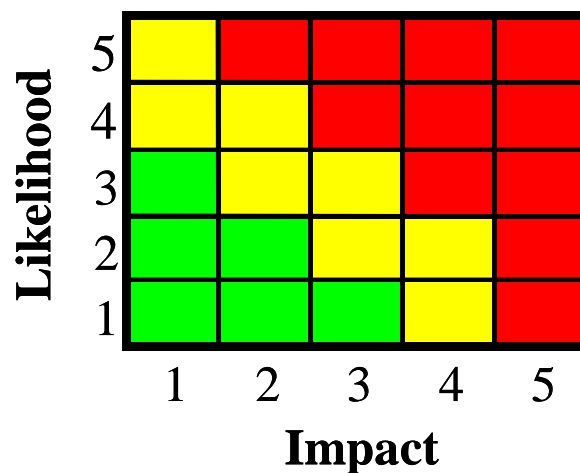
### Likelihood

Description	Scenario	Probability	Scale Values
Highly Likely	Very frequent occurrence	over 85%	5
Likely	More than evens chance	50-85%	4
Fairly likely	Quite often occurs	21-49%	3
unlikely	Small likelihood but could well happen	1-20%	2
Very Unlikely	Not expected to happen	less than 1%	1

Impact is scored on a similar basis using the following values:-

Description	Scenario	Scale Values
Disastrous	Business/activity could not be sustained	5
Severe	Serious threat to business/activity	4
Substantial	Reduces profit substantially	3
Marginal	Small effect on profit	2
Negligible	Trivial effect on profit	1

Once the 2 ratings are selected they can be plotted on a 5x5 grid.



The position on the grid provides a colour corresponding to the severity of the Risk which is often called its RAG (Red Amber Green) classification.

For example;

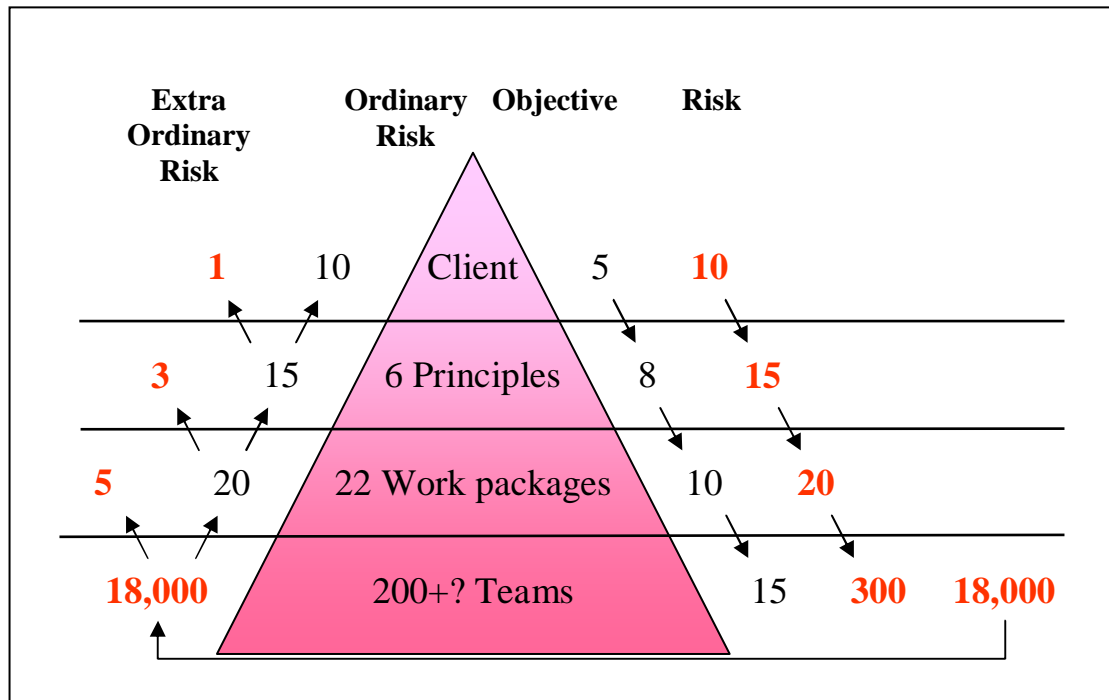
Likelihood	Impact	RAG classification
3	2	Green
3	3	Amber
4	4	Red

However, please note that the Likelihood and Impact ratings are based on delivery of the specific requirement so a 5,5 Red Risk at a tactical or operational level, meaning the Risk has a catastrophic effect on the actual event under scrutiny, may not have the same rating at strategic level and should be managed at this level.

Conversely if the Risk has a serious effect at a higher level it should be escalated and an appropriate manager allocated.

The important point is not all Red Risks have to be escalated just because they are Red.

The following graphic is an example of a Risk management Hierarchy that The Solution Organisation developed for a £1bn construction project and demonstrates the downward cascade of Objectives and Risks and the upward escalation of Risks, called Extraordinary here, that can not be appropriately managed at a specific level.



In this structure each level accepts the Objectives and Risks from the level above and adds any appropriate to its level. You can see that the Risk Register could include in excess of 18,000 Risks which is unmanageable by the top level if they had to deal with every Risk.

So each level is responsible for its own Risks and only escalates those it can not handle. For example at Work packages level they have their own 20 Risks identified in the downward cascade plus the five that have come up from the Teams level. However, they have 3 that they can not manage and they escalate them up to Principles level.

The principals of this structure can be applied to any organisation or activity all you need to do is change the descriptions at each levels and add as many levels as required.

This downward cascade and upward escalation needs to be communicated correctly so ensure the process you use is robust and operated correctly. If you would like an example of one of our communication strategies please ask.

Use the Risk management Excel spreadsheet we have provided to record each Risk.

## **Benefits of a Risk management Process**

If you recall one of the unforeseen consequences of the Hawthorne experiments was the beneficial impact of the consultation process. The fact the staff were consulted.<sup>1</sup>

## **Examples of Risk Management Outputs**

We offer 2 options for managing the identified Risks

- 1 An Excel based spreadsheet profile
- 2 A Word based profile

The Microsoft Excel based profile

The most common approach to tabulating the identified Risks is using Excel spreadsheets An example was provided during Seminar 4 and additional copies are available from the dedicated course website.

The Microsoft Word based profile.

It is possible to use MS Word and an example is provided on the dedicated course website.

Which method you choose is a up to you but remember these are only 2 examples. During the TSO Risk Management Process we develop the best output and reporting option for your organisation.

If you would like further specific help please contact us through our web site [www.thesolutionorganisation.com](http://www.thesolutionorganisation.com)

## **Problems of a Risk management Process**

As with all changes in a business there are a number of problems that you should be aware of with the development and application of a Risk Process;

- To be effective the process has to adopted and used by the whole organisation.
- If one section of the organisation does not adopt it then it rapidly becomes useless.
- A Risk management process is not “free”. You need to allocate resources to lead and manage it. However, remember that the benefits will always out weigh the costs.
- If your Risk Leader does not maintain the discipline of requiring the reports at the time specified the process will loose its validity.
- Because you are asking all your staff to engage in the process some will be hostile because they feel you are moving them out of their comfort zone. You must prepare communications and support strategies for the implementation phase.
- The Risk Leader must be objective about whether the process is running well and if it is not take steps to remedy it before the organisation can rely on the Risk register as being essentially complete

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<sup>1</sup> For more details of the Hawthorne Experiments see;  
[http://www.envisionsoftware.com/articles/Hawthorne\\_Effect.html](http://www.envisionsoftware.com/articles/Hawthorne_Effect.html)

## **Conclusions**

It has not been possible to provide detail information in this short paper but The Solution Organisation hopes you have at the very least begun to appreciate;

- what Risks are,
- those that you might face in your business
- the benefits of developing and applying a Risk management Process

TSO provides support to a number of organisations, both large and small, to develop and manage successful Risk Processes. We believe that there is no one-size fits all solution to Risk and that the process you adopt must match and work within your organisational culture.

Often the biggest Risk is the Risk Process itself if it is not developed and managed appropriately.

If you would like further information on our Risk management Processes or approval to reproduce this paper we can be contacted through our web site;

[www.thesolutionorganisation.com](http://www.thesolutionorganisation.com)