Risk management – a broader perspective

John Algar of Cranfield School of Management takes a wider view of risk management, looking past the process aspects to the cultural and human issues.

I was recently reading an old newspaper clipping on risk management. It contemplated why businesses failed to consider 'everything' when embarking on their various undertakings. The article reeled off famous catastrophes such as Barings, and continued with a brief account of how to properly manage risk. The author, who was not a practitioner in this area, concluded with his view that since the process was apparently "so simple", it was beyond his understanding how supposedly competent business people continually got it so wrong.

I must admit to having some sympathy with that view. The process is simple, consisting fundamentally of four steps: identify, quantify, manage and monitor, although the exact number of steps varies according to whose method and/or trademark you are using. There is a plethora of books on the subject, public courses abound and consultants are knocking on many doors to spread the good word. Yet the catastrophes continue.

The problem with the article was that the "everything" did not include the softer cultural issues that must be embodied in the corporate culture for risk management to work effectively.

Cultural issues

In my experience, most corporations that are encountering difficulty with effective risk management policies and initiatives actually have an underlying cultural problem. Risk management for them tends to be something they have to do, for example, to comply with regulation or parent company requirements. They usually have the right policies, they sometimes have the right technology for monitoring and control and they mostly hold regular meetings.

Those having trouble are also usually busy and are trying to retrofit risk management into their existing culture, often to a deadline set by reference to a Gantt chart created for another project or initiative. The activity will typically read "Milestone 49 – risk management programme to be completed by March '00", or something similar.

Herein often lies the problem. Retrofitting any type of initiative is necessarily harder than setting out with that goal in mind. Attempting it at the same moment in time as other initiatives are ongoing can be even more challenging.

So what should the risk management culture look like? To pick one view, (Hough, G. 'Growing a risk culture' in Project, May 1999, Vol. 12, Issue 1) suggests that: "a risk management culture is one in which risk assessment, monitoring and management is taken seriously at all levels.

"A risk management culture requires a supportive and open management style and strives to identify opportunities for advantage."

Some of those words could almost apply to any of the 'open and supportive cultures' that are the goal of so many of the current change management initiatives. The key distinction in my view is that the "…risk assessment, monitoring and management is taken seriously at all levels" and "strives to identify opportunities for advantage".

John Algar

Concepts that can help

Taking the 'simple' process side of risk as given, what are the ingredients that help bring about the change to a successful risk management culture? This article is not about change management as such so I list below a few notes on concepts that I have picked up through study and practice.

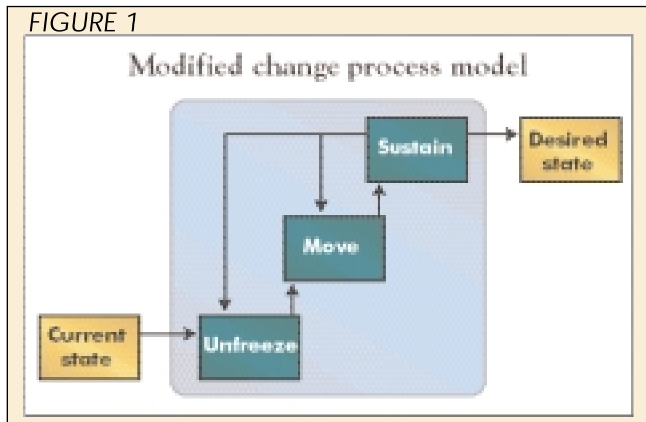
Set out with the goal of effective risk management as a prime element of your initiative. Ensure that this goal will be congruous with your corporate strategic objectives. Use gap analysis between the current and desired states of the entity concerned and plan the change process based on specific, measurable, achievable, realistic and tangible objectives.

Facilitate the process from start to finish to ensure:

- **buy-in** – the use of a neutral group facilitator ensures the output belongs to the group and not to the leader of the session;
- **stimulation of innovative ideas** – free of the administration of the proceedings, groups can play with ideas; and
- **speed and completeness of process** – the process is the facilitator's job. He/she does not have to concentrate on any other function outside the meeting.

Involve everyone right from the start if the goal is to institutionalise risk management into the changed culture. Balogun & Hope-Hailey's change process model (*Exploring strategic change*, Prentice Hall Europe, 1999) a development of the Lewin model ('Group decision and social change' in Maccoby et al [eds.] *Readings in social*

FIGURE 1



psychology, pp197-211. New York; Holt, Reinhart and Winston,1958) identifies three phases between the current and desired states. This is illustrated in *Figure 1*.

In the figure, the first phase – unfreeze – refers to preparing both the people and the organisation for change; creating the belief that change is necessary and creating the readiness to undertake it. Clear visibility of the initiative, clear communication and involvement at all levels is critical at this phase. If your people are to be proactive in making the change happen, they need to be clear on the issues and be convinced the outcome will be worth the pain and anguish during transition.

The second phase – move – is the implementation of the change initiative.

The third phase – sustain – is the embedding of the changes into people's behaviours to ensure that they do not return to the 'old' ways.

It is this last phase that is so often left incomplete due to time or financial pressures: "A comment from managers is that the change processes within their organisations have been left unfinished, since no real attempt has been made to institutionalise the required behavioural and attitudinal changes throughout the organisation. The result is a continual backsliding of staff into old ways of behaving and a confusion over where the change process has got to." (Balogun & Hope-Hailey, 1999).

Include the entire organisation in the process. Do not let the "us and them" syndrome develop. Practise risk management from the very top to the very bottom. The leader of the project (risk champion/manager) must be a senior executive with the authority to commit corporate funds/resources. He/she must also genuinely share in the vision that risk management will bring sustainable competitive advantage over the medium- and long-term and be able to communicate that to all levels. Equally so, each operating unit needs to have a similarly styled leader and ideally each individual should be encouraged to participate fully.

Encourage open feedback, reward effort towards the objective and reward effort towards continuous improvement and innovation. Encourage and reward identification of potential risks. The process will fail if individuals are concerned about identifying problems in their own areas. It is these areas that they should know most about and have the best chance of influencing the outcomes. Conversely, some of the most innovative ideas for the management of a particular risk come from individuals at different levels of responsibility and in different departments and disciplines.

Clearly identify ownership of each risk to an individual, not a department or group. Be specific about what the risk is and, just as importantly, what it is not. Publish the risk register and encourage feedback from all. Communicate clearly the distinction between an individual's responsibility for identifying risks in the first place (and the associated reward) and his or her responsibility for managing the risks they own (and the associated accountability).

Dedicate a risk administrator right from the start. Visibility through documentation is everything to risk management (electronic or paper) notwithstanding the fact that it is as much of an art form as a science. The administrator's reporting function also needs careful control skills. The reports need to stay lively through innovation to avoid them becoming stale and unread. Administrators should also be responsible for maintaining an up-to-date visibility room which should have varying levels ranging from individual projects up through the entire business.

Use tools and technology sparingly at first. The answer to risk management does not conveniently sit here. The tip is not to try to run before you can walk. Even extremely large entities can handle their initial steps on the road to risk management manually with some yellow stickies and flipchart paper. Keep the technology budget lean until you possess the experience necessary to use the technology. Nearly all the tools that you need initially are on a standard office PC. There are some very good software packages on the market which you can buy and install quite quickly, but none of them is an off-the-shelf risk management solution for your company. The better companies, however, may offer to tailor their package to your capabilities on the risk management maturity scale.

There are also lists of typical risks that you can buy for your industry sector/business type to help you populate your risk register quickly. In my experience, these lists can contribute to the process if used by an experienced facilitator, however, they can also lead to the demise of the initiative if used unwisely.

No off-the-shelf solutions

Unlike a one-off exercise to solve an immediate problem, if the goal is to institutionalise the practice of risk management into an organisation, it cannot just be imposed or bought off-the-shelf and implemented. Risk management must be taken seriously at all levels and must be provided with the right resources.

What I cannot understand is why corporations continue to incur the expense of a risk management system that satisfies an imposed requirement but delivers little competitive advantage? With just a little more effort and diligence, the organisation could benefit from the bounty that an effective risk management system would be able to bring. For example:

- reduced insurance premiums;
- confidence in compliance statements;
- effective and efficient personnel;
- ability to competently handle what to others appear to be unmanageable risks; and
- higher margins. ■

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