

INTRODUCING RISK MANAGEMENT



THE PANDORA PROJECT TEAM

RISK MANAGEMENT



My father had a strange way of 'improving the atmosphere at home'. Whenever my sister and I quarrelled he turned purple and then hit the table (or my head, whichever was best in reach) and shouted: 'From now on etc. etc.'

Needless to say that this did not work the way he planned, but he was (temporarily) satisfied: he had undertaken some action and he had made his point.

In many cases we see the same kind of managerial behaviour when it comes to risk management.

A risk materialises unexpectedly (that is what they do best) and somebody gets the blame. He/she is not supposed to let it happen again and the work continues (after cleaning up the mess, of course).

Clearly this does not work at all. Best case scenario is that the employee will be alert to this specific risk but that will not prevent other risks from materialising.

When introducing risk management in your organisation, there are some basic rules that you have to keep in mind, of which the three most important are:

Firstly: risk management is about avoiding undesired surprises.

**Risk management is not about acting afterwards.
Risk management is about preventive action.**

But preventive action requires that we know the risks we are facing.

Secondly: risk management requires the involvement of all people involved in the operations of the company; no ranks excluded.

Risk management is a collective responsibility.

Often the manager knows many of them; that is especially the case with managers in small companies, that are involved in hands-on activities. But still: he just knows many of them; not all.

Thirdly: If you expect people to volunteer their 'fears' about what may go wrong, they have to be convinced that they can speak freely without becoming the laughing stock or worse.

People have to feel safe before they will speak openly about risk they expect and often do not know how to deal with.

In order to achieve such a situation, people need to be encouraged to step forward. Always make sure that people understand that you take their remarks serious.

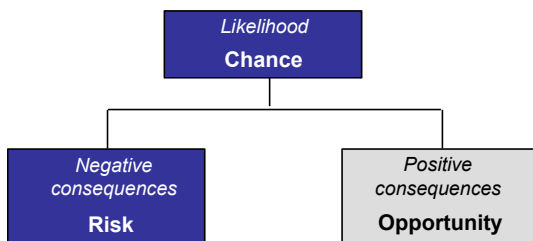
Chance, opportunity and risk

Before embarking on risk management, there are a few different notions that have to be made clear in advance. Chance, opportunity and risk; how do they relate? Although we do not advocate highly theoretical discussions, it is important that we all understand the meaning of these words. This is mandatory if we want to avoid lengthy discussion that in the end prove that we all were talking about different things. Please keep in mind that, when using definitions, it is always a matter of choice. There are numerous definitions available. We chose those that are compatible with the PARIS methodology.

Risk, opportunity and chance

'Risk' and 'Opportunity' are concepts that refer to uncertain events that could have a material effect on the performance of the organisation and/or its goals.

The difference is: with 'risks' the effect may be **neutral or negative** while with opportunities the effect may be **neutral or positive**.



In both cases we have to deal with the fact that the actual occurrence is **uncertain**. It could happen; we only don't know if or when that will really be the case.

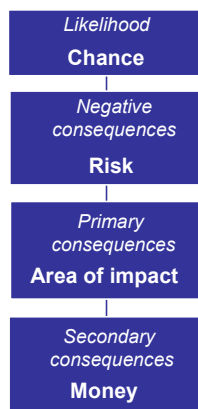
So the question is: "How likely is the occurrence of this event?". In other words: what is the chance that the event will really take place?

If consequences are 'neutral' there is little reason to worry or rejoice.

As we are dealing with risk management, we will now only focus on risks as 'uncertain events with a negative outcome': risks.

To answer the question about the likelihood can be expressed in two ways: quantitative and qualitative.

We prefer the qualitative approach. In most SME's there is little need to come up with pseudo exact calculations about probability.



So, basically there is the possibility (**chance**) that a certain undesired event (**risk**) materialises.

Should that happen, we have to face consequences for, for instance the people, environment etc. This we call 'primary consequence' (**area of impact**). But there is more to it. Whatever the consequences, there is almost always money involved. Equipment breaks down? Repairs will cost money.

People get hurt? Replacements cost money. The effect on risk areas is always accompanied by secondary consequences (**money**).

Categorising primary consequences

If we analyse all the risks a company or department is facing, we end up with a tremendous variety of primary consequences. This makes it necessary to bring order in this chaos. In our approach we have limited the areas of impact. We call these Risk Areas. This approach has been extensively tested in various branches, including small and large factories, in workshops, office situations, prisons, oil fields, a bike manufacturer, medical practice etc. These risk areas are: people, environment, assets and reputation. As we said; they worked perfect in all kinds of situations but the importance of these various risk areas differs per branch. So what!

The four risk areas

The four risk areas mentioned above have proved themselves useful during various projects. We will discuss them here briefly.

People

People may get hurt. This may range from 'a little pain' to temporary or permanent being disabled. Worst case: people die.

Environment

Some incidents have an impact on the environment, ranging from a little spill that can be cleaned easily to permanent damage to a wider area. (Bophal, Seveso).

Assets

Here we deal with damage to assets. Maybe some tool gets broken, maybe some machinery stops. But it is also possible that an entire plant goes down for some time or even permanently.

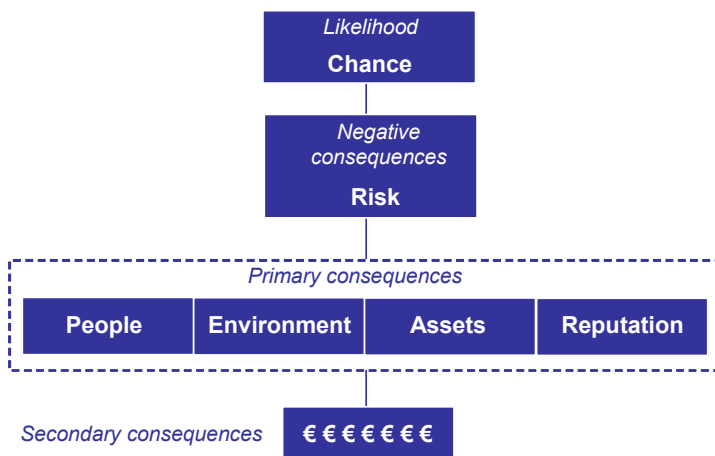
Reputation

Reputation is a very important aspect of a company's existence. It reflects directly on its reliability. A company with a tarnished reputation will have a hard time finding buyers and suppliers. A damaged reputation might also result in difficulties in obtaining the necessary permits.



Just one of those days; we all have them.

So the graph we started on the previous page will finally end up like the one shown here.



Creating involvement

Introducing Risk Management can only be successful if there is 'Risk Awareness'. The statement that 'From now on we will manage our risks' will in itself hardly be of any importance. People have to get involved. That means for you as a manager that you have to invite them, tempt them, to participate actively. The manager offers the framework and the opportunity; the employees offer their experience.



This is not the way
we handle risks!

OBJECTIVES

The main objectives for the starting meetings are:

- Employees understand the importance of risk management for the organisation as a whole.
- Employees get acquainted with the four risk areas that play an important role in the assessment of risks.

Employees experience the importance of various opinions to properly assess a risk.

ORGANISATION

The organisation of meetings largely depends on the size of the organisation. If there is a department-structure in place, then meetings should be held within the departments. In smaller companies without such a structure, it will be a 'general' meeting.

To underline the importance of risk management, management will always take part in these meetings.

ADDITIONAL MATERIALS

- Text on risks, opportunities and chance
- Basic risk registration form

Introducing risk management in the organisation

People have to be prepared for something new. Before the first 'official' meeting starts, the employees have already been informed about the up coming activities.

- *If you have a newsletter, then use it! Have someone write about a 'near mishap'.*
- *If you don't have a newsletter at your disposal, then address the topic during a meeting by putting forward a risky situation in your organisation..*
- *Hanging posters on strategic spots (near the coffee machine, in the elevator) is a very effective way to alert people about 'what is to come'. They don't have to be king-size. A3-size is big enough.*
- *They are easily made and costs very little.*
- *In one company we made a kind of Monopoly game, with dice and 'risk-cards'. This too was very successful as an introduction.*

Introduction

During the first meeting, the manager has to stress:

- The importance of risk management for the company.
- The importance of everybody’s input
- The fact that the situation is under discussion; not the people.
- That risk management is a collective responsibility.

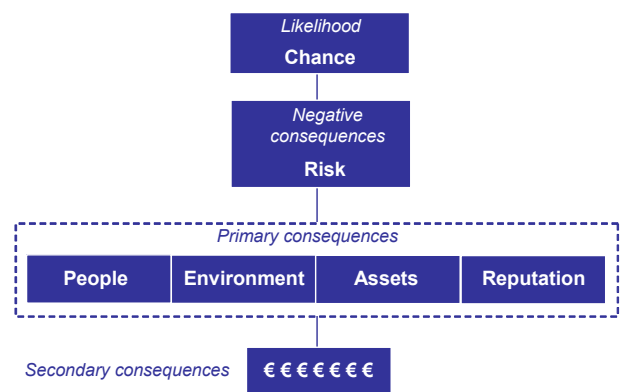
(Needless to say that these items also should have been addressed during the previous meetings, on poster, in newsletters etc.)

Core

Introduce the notion of risk as described on page 2 of this module and explain this basic graph. Of course people want to discuss this information. Make sure that you respect their opinion, but that - for the time being- you are bound to stick by these principles. Otherwise you will get into trouble later on.

As you have prepared this meeting, it is up to you, the manager, to put forward a risk that plays (or may play) a role in your organisation.

Select a risk of which the origin can not be attributed to a specific person in the organisation.



Invite the employees to describe the possible primary consequences for each risk area.

Use a simple form as shown here.

Risk name:				
Where and when to expect:				
POSSIBLE CONSEQUENCES	PEOPLE	ENVIRONMENT	ASSETS	REPUTATION

Please prepare and print this form before the meeting starts.

Cooperation between employees is most welcome. Discuss the findings. Employees should need about 10 minutes to enter their information

THE FIRST MEETING (continued)

Discuss the findings.

Use four columns on a whiteboard or use flip-over sheets. Stick to the same lay out as shown on the previous page.

The first goal of the discussion is to see to it that all important primary consequences have been mentioned.

Discuss the circumstances under which the incident could occur. Together the participants should try to find other situations that are vulnerable to the same risk.

Wrap up & summary


*After each discussion, the findings are distributed throughout the organisation. E-mail would be fine, provided that **everybody** has an e-mail account.*

- Risk management is a shared responsibility
- Summarise the learning points:
- What is a risk
- What are primary consequences
- Risk areas
- One risk; various consequences divided over (max.) four risk areas.
- Differences in severity

For next time:

Ask the employees to define and analyse one or two risks. It is 'Ok' if people work together in small groups.

They are to use the same structure as on the sheet used during this meeting.

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