Risk Management

Introduction

All agencies are accountable for the effective and efficient use of resources. The National Statistical Organisations are responsible for ensuring that financial expenditure and organisational productivity are being performed to the highest standard possible. Organisational decisions and activities at any level rely upon an effective evaluation of opportunity and risk, in order to maintain a transparent and accountable relationship with the government and the public.

Risk management is integral for compliance. Taking opportunities and managing risks also make good business sense. Identifying opportunities and acting on them is key to productivity, effectiveness and sustainability. Any organisational opportunity, decision or activity regardless of its significance, impact, cost or visibility, is accompanied by a risk that the outcome or action will be different than planned or expected.

Good risk management means a manager has identified a work related opportunity, and undertaken a process to identify any risks and consequences. This includes planning to minimize or eradicate the probability of the risk occurring. Effective risk management means the evaluation is undertaken at a level that is practical and reasonable for the situation or decision that needs to be made.

Risk management is both an essential tool and behavioural practice that managers must undertake to make business decisions that both protect and progress their areas of responsibility in the organisation. Manager should use risk management to minimize:

- unformed and unnecessary risk taking, and/or
- risk aversion.

Both of these actions can result in delays, and/or poorly executed decisions.

This chapter provides managers with an overview of the process available to help evaluate and manage risk. Managers will be able to determine the right depth of analysis and preparation best suited to the business decision or action. The regular application of risk management to the wide variety of responsibilities a manager has will prove that it can be flexibly applied for confident decision making.

Key Principles and Objectives

Risk management policies and related frameworks, such as risk management frameworks, risk management guidelines, and project management frameworks are generally based on the International Risk Management Standards. They provide the general principles and processes to manage and weaken risks within the organisation. All risk management and decision making activities align with accountability standards outlined in related policies. This ensures that organisations undertake opportunities, risks and decisions that are legal, ethical, and withstand scrutiny.

Organisational level risks can be identified as Enterprise Risks. These are generally reviewed annually. The enterprise opportunities and associated risks are strategic. Unmanaged enterprise risks could affect the organisation’s viability. The discussion and action deriving from annual reviews have influence on setting strategic priorities and allocating resources before integration into long term integrated planning and budgeting. Having an enterprise level risk profile helps to improve an organization’s decision-making processes, the quality of briefings to senior management and other stakeholders, and the overall management practice by providing a basis for risk management within the organization.

The processes used to identify opportunities and risks, and methods to mitigate risk occurrence are adaptable to a range of planning activities and decisions in the organisation. Senior management expect staff to employ elements of identifying opportunities and managing risk as relevant to their roles, functions and responsibilities.

Examples of how opportunities and risks are being identified include work program planning, financial management, projects, team brainstorming or problem solving. Specific risk management tools for procurement and other special services may also be available. The depth and formality you apply to techniques will depend on your assessment of the situation.

During planning processes, time and resources should be allocated to risk analysis, treatment measures and monitoring of risks while taking into consideration costs versus benefits. Undertaking a risk analysis before making decisions will often result in more effective work practices and productivity. Risk responses must be outlined for each risk, and monitored as part of the organization’s ongoing risk management practice, thus contributing to the organization’s ability to deliver its mandate. Conversely, performance or productivity improvements are unlikely to occur if managers don’t take educated risks to exploit business opportunities. Risk management enables managers to undertake new business /operational challenges and manage the risks. Using risk management provides a level of assurance and accountability in decision making and an action plan if outcomes differ from those expected.
Your Role
Managers need to understand their operating environment to align work program priorities and performance expectations with the organisation's objectives and performance standards. Furthermore, success and productivity relies on its staff, especially managers, to subscribe to continuous improvement, and scope opportunities to evolve, innovate and enhance current business. Opportunity is usually accompanied by risk, and a manager's role is to decide if opportunity outweighs risk or whether the risk can be reduced through treatment measures.

Managers make work related decisions constantly, either formally in line with delegations or informally in relation to daily work functions, projects, and good team management. Organisations rely on managers to use risk management to strive for high quality business outcomes. Managers must ensure that the amount of effort put into these activities is consistent with the context of the situation and expected outcomes.

From risk identification to treatment phase, managers make choices which they take responsibility for against their own organization and the resources managed and also are accountable for the goals attained.

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Key Processes and Issues
Good risk management is a business process that improves the standard and value of work output and outcomes in all business areas. Due to the ongoing/cyclical nature of our work, the Project Management Framework and risk management processes are frequently applied to meet time frames, budget and high quality project outcomes. Risk management is used for statistical quality assurance (such as quality gates), improving the relevance of the statistical work program, ensuring business continuity of systems, and for financial management, such as procurement activities. Risk evaluation is also useful to a manager when preparing for performance related conversations with staff. Preparation increases optimal outcomes. It is important that the context and strategic goals of the organization be taken into account as well as the operating environment.

Identifying Opportunities
Organisations and senior executives rely on managers to use her/his experience and knowledge to contribute to a focus on productivity and innovation. A manager must focus on identifying opportunities, and allow them to be practically implemented. Managers are encouraged to continuously assess the external environment in line with client service standards and national statistical service objectives, and to look to identify improvements in flexibility and productivity.

Organisational opportunities can make a difference at any level, and managers are expected to encourage staff, through their example, to be proactive in assessing opportunities for performance and productivity improvement. New opportunities also come with elements of risk that may impede positive outcomes if not managed effectively.

Assessing Risk
Risk that are not identified, or left unmanaged may lead to the following organisational outcomes

- enterprise (strategic and may significantly impact on the organisation)
- operational (may impact on a program's objectives and/or outcomes)
- project (may impact on the project objectives and outcomes).

Generally, risk assessment activities are located in an organisation's Risk Management Framework. While all steps are important, it is vital that identified risks are assessed for the likelihood of occurrence, and the impact they will have. This matrix can be helpful in assessing risk tolerance:

Links to useful documents
- Paper on organisational change, Jackey Mayda, Stat Canada, 2015
- Rethinking and reshaping Organizational systems in time of changes: The Process of Risk Management in Istat Fabrizio Rotundi, ISTAT, 2014
- Change management – the key role of managers in the implementation of Lean in Statistics Norway Anne S. Trolie and Ingvild Maanum Møller, Statistics Norway, 2014
- Excellent management and leadership support for putting change management into practice successfully – Why, What, How & Results Martin Lagerström, Statistics Sweden, 2014
The level of inherent risk (before mitigation factors have been taken into account) and the residual risk (after mitigation factors have been taken into account) should also be documented. The decision to undertake further action depends on this assessment. Risks that have an overall assessment of High or Extreme should be elevated to Senior Management.

**Making Decisions**

Managing risk enables informed decision making or action. Sometimes an unknown factor may make a difference (not always negative) to expected outcomes. Risk aversion or not making a decision can result in program, project, staffing or financial complications.

Decisions must be in a manner that promotes the efficient, effective and ethical use of the organisation’s resources, and withstand scrutiny. They need to be:

- legal
- fair
- ethical
- accountable
- aligned with NSO’s objectives.

When undertaking a raft of purchasing and contract management activities, undertake some or all of the following general processes to make responsible ethical and legal decisions and actions:

- know your parameters and powers
- obtain as much information about the circumstances as appropriate
- be sure you have obtained the best information available
- investigate the relevant legislation, policies and guidelines
- share your decision-making process but finally decide on your own
- maintain appropriate privacy and confidentiality
- respect procedural fairness
- be consistent
- identify the risk context (strategic, organisational, risk management)
- consult and communicate as needed
- identify the risk and its source
- assess and rate the likelihood and level of impact
- take action appropriate to the probability and impact rating
- elevate High and Extreme risks to Senior Management
- monitor the situation (see below)
- conduct a post activity review to evaluate success and opportunities for improvement in future activities, and communicate these outcomes

**Monitoring risks**

Once risks have been identified (whether at an enterprise or operating level), it is important to

- have a clear risk statement
- have a documented description of the risk that all stakeholders will understand
- assign an ‘owner’ who will be responsible to develop mitigation strategies and monitor the evolution of the risk
- determine the inherent risk (before mitigation strategies are applied)
- develop and document mitigation strategies and action plans with timelines for implementation
- determine the residual risk (after mitigation strategies are applied)