

BSBRSK501

Manage risk

Release 1

Learner guide

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Aspire Version 1.1

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Before you begin

This learner guide is based on the unit of competency *BSBRSK501 Manage risk*, Release 1. Your trainer or training organisation must give you information about this unit of competency as part of your training program. You can access the unit of competency and assessment requirements at: www.training.gov.au.

How to work through this learner guide

This learner guide contains a number of features that will assist you in your learning. Your trainer will advise which parts of the learner guide you need to read, and which practice tasks and learning checkpoints you need to complete. The features of this learner guide are detailed in the following table.

Feature of the learner guide	How you can use each feature
Learning content	Read each topic in this learner guide. If you come across content that is confusing, make a note and discuss it with your trainer. Your trainer is in the best position to offer assistance. It is very important that you take on some of the responsibility for the learning you will undertake.
Examples and case studies	Examples of completed documents that may be used in a workplace are included in this learner guide. You can use these examples as models to help you complete practice tasks and learning checkpoints. Case studies highlight learning points and provide realistic examples of workplace situations.
Practice tasks	Practice tasks give you the opportunity to put your skills and knowledge into action. Your trainer will tell you which practice tasks to complete.
Video clips	Where QR codes appear, learners can use smartphones and other devices to access video clips relating to the content. For information about how to download a QR reader app or accessing video on your device, please visit our website: www.aspirelr.com.au/help
Summary	Key learning points are provided at the end of each topic.
Learning checkpoints	There is a learning checkpoint at the end of each topic. Your trainer will tell you which learning checkpoints to complete. These checkpoints give you an opportunity to check your progress and apply the skills and knowledge you have learnt.



Foundation skills

As you complete learning using this guide, you will be developing the foundation skills relevant for this unit. Foundation skills are the language, literacy and numeracy (LLN) skills and the employability skills required for participation in modern workplaces and contemporary life.

The following table outlines specific foundation skills noted for your learning in this learner guide.

Foundation skill area	Foundation skill description
Reading	<ul style="list-style-type: none">• Comprehends a variety of relatively complex texts• Gathers, interprets and analyses textual information from a range of sources to identify relevant information
Writing	<ul style="list-style-type: none">• Develops textual material and organises content in a manner that effectively documents risk management analysis and assessment priorities and processes
Oral communication	<ul style="list-style-type: none">• Participates in interactions with stakeholders using questioning and listening to elicit opinions, and to confirm and clarify understanding
Numeracy	<ul style="list-style-type: none">• Uses numerical tools to assess risk and uses numerical data to review plans
Navigate the world of work	<ul style="list-style-type: none">• Refers to organisational processes, procedures and requirements when making decisions about risk management
Interact with others	<ul style="list-style-type: none">• Establishes and uses appropriate conventions and protocols when communicating with stakeholders about risk management• Consults and negotiates with stakeholders about risk management processes and outcomes
Get the work done	<ul style="list-style-type: none">• Sequences and schedules a range of routine and complex activities, monitors implementation, evaluates processes and manages relevant communication• Systematically analyses information to decide on appropriate risk management treatments• Uses digital technologies and systems to access information, document plans and communicate with others

What do you already know?

Use the following table to identify what you may already know. This may assist you to work out what to focus on in your learning.

Topic	Key outcome	Rate your confidence in each section
Topic 1 Establish the risk context	1A Review organisational processes, procedures and requirements for risk management	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	1B Determine the scope for risk management processes	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	1C Identify stakeholders and their issues	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	1D Review the political, economic, social, legal, technological and policy context	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	1E Review existing arrangements	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	1F Document critical success factors, goals and objectives	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	1G Obtain support for risk management activities and communicate the process to stakeholders	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
Topic 2 Identify risks	2A Invite appropriate people to assist in identifying risks	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	2B Research risks	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	2C Use tools and techniques to generate a final list of risks	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident

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Topic	Key outcome	Rate your confidence in each section
Topic 3 Analyse risks	3A Assess the likelihood of risks occurring	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	3B Assess the impact or consequences of risks	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	3C Evaluate and prioritise risks for treatment	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
Topic 4 Select and implement treatments	4A Select the most appropriate options for treating risks	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	4B Develop a risk treatment action plan	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	4C Ensure all documentation is correct and stored appropriately	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	4D Communicate, implement and monitor a risk treatment action plan	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	4E Evaluate the risk management process	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident

Topic 1

Establish the risk context

Before conducting or implementing any form of risk management, you must establish your risk context, including the scope of your organisation's risk management process, the stakeholders, the environment, and the desired outcomes or objectives. Effective groundwork at this stage will streamline the process and allow you to concentrate on identifying and dealing with risks.

In this topic you will learn how to:

- 1A Review organisational processes, procedures and requirements for risk management
- 1B Determine the scope for risk management processes
- 1C Identify stakeholders and their issues
- 1D Review the political, economic, social, legal, technological and policy context
- 1E Review existing arrangements
- 1F Document critical success factors, goals and objectives
- 1G Obtain support for risk management activities and communicate the process to stakeholders

1A

Review organisational processes, procedures and requirements for risk management

Risk is the effect of uncertainty on a group or organisation and its objectives, functions or outcomes. Organisations conduct risk management to identify potential risks and put in place measures to control the likelihood of these occurring. The aim is to protect the organisation's assets, as well as to protect and create value for its stakeholders, including owners, employees and customers. Before you begin any risk management tasks you need to know how your organisation operates, how it views risk, what organisational processes or procedures it currently has in place for managing risk, and what processes may require development.

Questions about an organisation's chance of risk might include:

- Is there a risk management plan? If so, what aspects does it cover?
- How does it align with the organisation's strategic plans?
- Is the manager's role in the plan clearly delineated?
- Do all staff know about the plan and understand what is required of them?

Understand the organisation's operations

Managers must be familiar with the way their organisation is structured, its philosophy, how it operates and the potential risks it faces. The size and nature of the business will dictate its organisational hierarchy. For example, a large organisation may have a CEO, several managers for specific departments and a workforce to achieve its strategic objectives. A not-for-profit organisation may be overseen by a board.

An organisation may be a single entity, be part of a franchise, have branches nationwide or be part of an international network. All organisations should have a set of policies and procedures that govern the way they operate in accordance with relevant legislation and industry codes of practice, and a business plan that outlines their goals, objectives, strategies, responsibilities and resourcing in both the short and long term. The planning should include a risk management process that identifies and prepares contingencies for dealing with risks likely to affect their operations.



Understand the types of risk

The types of risk depend on the size and nature of the organisation and its business operations.

Here are different types of risk that an organisation may encounter and that should be considered in a risk management document. Identify which risks affect your organisation.

Commercial relationships

Risks of being associated with another organisation, directly or indirectly. Where an event affects an associated organisation, you need to consider whether the event is positive or negative, flow-on or collateral.

Economic circumstances

Risks associated with finance. Risk is inherent in international markets (currency, trade, etc.) and in domestic areas such as debt exposure, supplier/customer business failure or collapse. Property-centred risks include buildings, assets and product development.

Human behaviour

Human risks include company performance due to morale, cultural issues in international business or work culture; for example, during company mergers or takeovers, staff cutbacks or recruitment. Human behaviour risk is also often recognised as part of work health and safety.

Individual activities

Theft, embezzlement and fraud may be on a small or large scale. Individual activities contain these types of risk.

Legislation

Legislative changes affecting organisational operations are often foreseeable, but risk arises from the changes themselves and the change process, such as reorganisation; relocation; and differing federal, state and local requirements for licensing, public risk and liability.

Management activities

Effect of changes implemented by management, or adverse effects of other risk mitigation or control measures such as change of leadership or a restructure or merger.

Natural events

Risks posed by natural disasters (cyclone, flood and drought) and longer term risks associated with natural phenomena such as climate change.

Political

Changes in government at national, state or local level and the underlying politics that may affect an organisation's way of doing business, services offered or products manufactured.

Technology

In organisations that have a high degree of reliance on technology, risk surrounds technology failures, redundancy, emerging technology and the associated costs of maintaining a technological edge over competitors.

Understand how risks are categorised

Once you understand the types of risk your organisation needs to manage, you need to understand the process it uses to manage them, regardless of whether you are managing risks across the whole organisation, a specific business unit or a particular area.

Organisations categorise risks using several different criteria, as shown here. Identify how your organisation approaches risks.

Property-centred risks

Property-centred risks include risks associated with:

- theft
- poor asset management
- building risks.

Personnel-centred risks

Personnel-centred risks include risks associated with:

- personal safety
- travel accidents
- loss of personnel
- costs of recruitment
- public liability.

Market-centred risks

Market-centred risks include risks associated with:

- product liability
- falling product demand
- changing economic conditions
- competition
- lack of diversity of products and services.

Operation centred-risks

Operation-centred risks include risks associated with:

- suppliers
- information technology
- financial management.

Legislation-centred risks

Legislation-centred risks include risks associated with:

- work health and safety
- taxation
- equal opportunity.

Governance-centred risks

Governance-centred risks include risks associated with:

- poor risk management
- failure to take opportunities
- failure to provide policies and procedures
- failure to provide strategic direction.

Understand an enterprise risk management approach

You may come across the term enterprise risk management (ERM), particularly if you work for or with large businesses and especially in the finance sector (brokerage houses, banks, etc.). ERM is a holistic framework that was developed in the United States in 2003 for managing risk as a corporate management strategy. The framework is now widely employed as a common approach to risk management for many organisations and enterprises. It looks at risk management across four risk types and risk management processes, and aligns risk management goals with corporate or enterprise outcomes.

While there may be different approaches to risk management at an organisational or enterprise level, they all follow the same process of identifying, analysing, evaluating and treating the risks, then monitoring and reviewing the risk management process as a continual cycle.



Follow the Standard for risk management

In Australia, organisations generally follow the international risk management standard AS/NZS ISO 31000:2009 Risk management – Principles and guidelines. The Standard provides practical advice on how organisations can develop, implement and improve the way they manage risk. It is designed to help organisations identify and treat risks effectively, improve risk controls, comply with relevant legal and regulatory requirements, and improve overall operational effectiveness and efficiency. Organisations can use the Standard as a benchmark against which they can compare their own risk management practices.

Check that your organisation has a copy of this Standard and keep up-to-date with any changes to the Standard or supplementary material produced.

Useful complementary publications that support the Standard include:

- ISO/TR 31004:2013 Risk management – Guidance for the implementation of ISO 31000
- ISO/IEC 31010:2009 Risk management – Risk assessment techniques
- ISO Guide 73:2009 Risk management – Vocabulary, which provides a collection of terms and definitions relating to the management of risk.

A process to manage risks

You need to be familiar with the steps for managing risks as stated in the AS/NZS ISO 31000:2009 Standard. This is so you can see where and how they can be integrated into existing practices and thus ensure all procedures are consistent with the Standard. Here are the steps and the rationale for each part of the process covered by the Standard.

1. Communicate and consult

Consult with internal and external stakeholders at every step of the risk management process. In this way, you can be sure everyone understands why a procedure has been put in place and takes the identification and management of risks seriously.

2. Establish the context

Establish the current conditions in which the organisation operates in an internal, external and risk management context. Define criteria used to evaluate risk and establish a risk analysis framework.

3. Identify the risks

Identify and document factors that affect the organisation's goals, either positively or negatively. Determine how and why these factors exist.

4. Analyse the risks

Analyse existing controls. Assess the likelihood of the occurrence of risks and their consequences within these controls. Combine consequence and likelihood to produce an estimated level of risk.

5. Evaluate the risks

Compare estimated levels of risk with the established context developed in Step 2. Rank and prioritise risks within the contextual framework.

6. Address the risk

Develop and implement strategies and management plans to prioritise and treat/control risks, in particular addressing high-priority risks. Lower priority risks may be accepted and monitored.

7. Monitor and review the system

Monitor the risk management system at all stages to ascertain its effectiveness and track any changes that affect it. Revise the system to accommodate necessary changes identified during the monitoring.

Example: understanding the Standard's risk management processes

Here is a diagram of the risk management process as described in the AS/NZS ISO 31000:2009 Standard.

Communication and consultation			
Establish context	Identify risk	Analyse and evaluate risks	Treat risks
<ul style="list-style-type: none"> • Strategic plan • Corporate plan • Projects • Policies • Programs • Business unit • Disaster/emergency 	<ul style="list-style-type: none"> • Financial • Legal • Operational • Market • Construction • Reputational 	<ul style="list-style-type: none"> • Likelihood • Consequence • Adequacy of control measures • Risk tolerance • Action 	<ul style="list-style-type: none"> • Strategic realignment • Administrative actions • Budget review • Safety review • Continuity planning • Emergency planning • Insurances

Practice task 1

1. Locate a copy of the AS/NZS ISO 31000:2009 Standard. If your organisation does not have a copy, your trainer will help you obtain one. Read the steps involved in risk management. Outline the purpose and key elements of the Standard.

continued ...

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2. Does your organisation have a risk management process or framework in place? Determine whether there is a management approach in place or whether there are individual risk management processes for the various risk areas. Collect and file relevant documentation that will be useful as you work through this unit. Make brief notes about the current processes and procedures.

3. Who is responsible for risk management?

4. What types of guidelines are provided for conducting risk management tasks, such as risk identification and assessment?

5. Are you provided with risk assessment forms?

6. What guidelines are included for the preparation or presentation of risk reports?

1B Determine the scope for risk management processes

The next important step is to determine where the risk management will apply. This is referred to as the scope of the risk management. Accurately defining the scope at the outset allows you to apply your risk management resources in a targeted manner, avoid duplication and waste and involve appropriate personnel where required. For example, if you get the scope wrong, your costs and resources will be wrong. Determining the scope means identifying how widely, or how narrowly, you wish to apply your risk management processes and measures. Are you required to develop the process for a project of a specific business division, unit or area; for a specific function such as financial management or work health and safety; or for the organisation as a whole?



Identify the scope of a risk management process

Often the scope of the risk management process is deliberately limited by budget restraints, personnel resources or managerial directive. In this case – where your scope is predefined – you are still required to determine if any overlap or ambiguities are present in the defined scope to clarify the requirement.

The scope of a risk management strategy might include:

- the business or organisational areas to which you apply the risk management process
- whether there are specific areas that require attention
- who the stakeholders are (who is affected by the process)
- who is involved in the implementation of the process
- time frames (for example, ongoing or cyclical process)
- how far into the future you project your strategy.

Techniques to help determine scope

Accurate determination of scope is essential to ensure organisational outcomes are achieved. Knowing the reasons you are conducting risk management helps you understand what you need to achieve in your process, and hence what your scope must encompass. Although this is not an exhaustive list, here are some questions you may need to ask when determining the scope.

Questions to determine scope

- How is the organisation structured?
- What is the likelihood of risks occurring on a day-to-day basis?
- What is the purpose of the risk management process and what outcomes do we want?
- Is our scope defined within existing organisational documents or procedures?
- What are the limitations for completion of the process, in terms of time and resources?
- What business projects, units or areas will be examined?
- Are there any specific areas within these units that must be targeted?
- What time horizon will be used for identifying emerging risk; for example, 12 months?
- What potential risk types need to be addressed?

Example: defining scope accurately

‘Recently, I helped a high-risk, high-visibility project to succeed when all the observers were predicting failure because the project had hostile stakeholders, disengaged, part-time developers, a vendor trying to do things via long distance, an unrealistic scope, an arbitrary deadline, and a new project manager with no experience in software project management. The organisation had a well-defined business process which was being funded well to meet the deadline.

‘With support from the organisation, I was able to improve the situation so that management were aware of the risks involved if the project wasn’t implemented more efficiently. But most importantly we re-defined scope to match the exact, legal definitions of the terms stated in the directive from management and nothing more. This cut 70 per cent of the features from the first release of the scope where superfluous and undefined areas were included.’ (Adapted from, and reproduced with permission of, Digital Publications LLC, www.digitalpbs.com)



Practice task 2

1. Why is it important to define the scope for risk management purposes?

2. What steps do you need to follow to define scope?

1C

Identify stakeholders and their issues

When initiating a risk management process, you need to identify who has a stake in the process and any outcomes that may flow from their involvement. This includes all those directly involved in the process; that is, personnel within your organisation and externally, such as clients and customers, contractors, regulators, insurers/underwriters and investors. Look at each area affected by your risk management application and determine the stakeholders. For example, if your scope includes examining logistical risks such as inventories, costs, transport and facilities, you need to include managers, budget controllers, accountants, insurers and safety advisors from the logistics area. The following shows all the people you need to identify and work with as you manage your organisation's risk management strategy.

Internal stakeholders

- Owners
- Employees
- Managers

External stakeholders

- Suppliers
- Society
- Government
- Creditors
- Stakeholders
- Customers

Consult with stakeholders

It is essential to consult with people who can provide information about risks, as well as those likely to be affected by the processes or potential impacts or outcomes of identified risks. Different stakeholders may have different and occasionally conflicting concerns and issues they need to voice or require you to address. You need to maintain a high level of interpersonal communication skills to encourage stakeholder cooperation. You should also establish what information about the process the stakeholders want to be informed of, and at what stages during the process. If you workshop a reporting schedule with your stakeholders at this point, you can pre-program reporting times as part of the process. By understanding your stakeholders, you can predict or pre-empt any issues that may arise. Most importantly, they want to know how it involves them.

Other issues that may arise are those involving:

- costs
- timing
- resources
- other personnel involved
- aspects of the process itself.

Prioritisation

Finally, when all stakeholders have been identified, you need to prioritise participants according to their stake in the process. Not everyone needs to be informed or consulted for every part of the risk process, but some do. Don't be tempted to rank the participants by number, as this can be difficult and even unhelpful where the stakeholding is equal. Assign them into one of three areas: high, medium and low priority.



Example: involving a wide range of stakeholders

The following example from the NSW Office of Environment and Heritage shows the wide range of stakeholders that can be involved in a project.

Stakeholders include:

- Owners and operators in local industries and businesses
- Local council
- Local chamber of manufacturers
- Local catchment management committee
- Industry associations
- Local chamber of commerce
- Local media

What stakeholders' interests and views are:

- Concerned not to 'paint industries in a bad light'
- Concerned not to discourage further business and industry from setting up in the area
- Of the view that 'business development' and 'environment' have little common ground

(Reproduced with permission of the NSW Government's Office of Environment and Heritage, www.environment.nsw.gov.au)

Practice task 3

1. Identify the internal stakeholders in risk management for a project in your organisation.

2. Identify the external stakeholders. Be specific and targeted to your organisation, industry sector or local constituency and state bodies. For example, don't use 'Government' – but specify 'Wollongong Council Planning Department', 'Wollongong Development Corporation', 'Work Cover NSW', etc.

3. Prioritise these stakeholders' involvement as high, medium or low priority.

4. Against each stakeholder, list an issue they are likely to have.

1D

Review the political, economic, social, legal, technological and policy context

You need to understand the environment or context in which you are conducting your risk management activities. By reviewing these environments you can achieve a greater understanding of how each of these external factors can influence your risk assessment process and the potential threats or opportunities presented by each, now and into the future.

The context can include the following areas:

- Political
- Legal
- Economic
- Social
- Technological
- Policy

Understand the political and legal context

Political decisions made at the federal, state and local government levels can greatly affect your organisation's operations. In particular, a change of government may result in a different focus or economic direction and affect the way your organisation conducts its business, the products it provides and the rules and regulations it has to comply with.

The political context also includes the legal context. You need to be familiar with a range of legislation, codes of practice and national standards that relate to your organisation's risks. Know where to access the documentation and read relevant material that identifies upcoming political or legislative changes.

Legislation, codes of practice and national standards can relate to:

- duty of care: *Work Health and Safety Act 2011* (Cth)
- environmental law: *Environment Protection and Biodiversity Conservation Act 1999* (Cth)
- freedom of information: *Freedom of Information Act 1982* (Cth)
- industrial relations law: *Fair Work Act 2009* (Cth)
- privacy and confidentiality: *Privacy Act 1988* (Cth)
- access and equity legislation: *Disability Discrimination Act 1992* (Cth); *Age Discrimination Act 2004* (Cth); *Racial Discrimination Act 1975* (Cth); *Workplace Gender Equality Act 2012* (Cth)
- company and contract law, and competition and consumer protection: *Competition and Consumer Act 2010* (Cth)
- AS/NZS ISO 31000:2009 Standard.

Political and legal considerations

Understanding the political and legal context of risk requires several key factors to be considered:

- Identify any upcoming or proposed parliamentary Acts, legislation, decisions on legal challenges, regulatory amendments or other political changes and see whether they will affect your risk management scope.
- Risk assessments should identify the potential for accidents, and strategies should be in place to comply with all work health and safety laws.
- Ensure the organisation complies with equal employment opportunity legislation to avoid any potential for it to be sued for recruitment discrimination or wrongful dismissal.
- Identify that the risk management policy and plan comply with anti-discrimination legislation to minimise the risk of litigation relating to age, gender or race discrimination.
- Organisations are required by law to make reasonable adjustments in the workplace for people with a disability. Risk assessments should consider where risks are likely to occur for people with a disability; whether all people have easy access to the building and facilities; and how safety measures have been applied in relation to floor surfaces, railings, walkways, lighting, etc.
- Competition and consumer protection laws govern an organisation's operations, so adequate protection should be built into the organisation's risk management strategy.

Understand the economic context

Understanding the impact of changing economic conditions on business or organisational functions is crucial. You need to review not only the national economic conditions, but also the macro (global) and micro (local) economies. For example, even if global conditions are in a downturn, a particular local industry may be booming, meaning that domestic and local environments are still favourable.

Read documentation such as industry trends, expected economic conditions, organisational sales figures or research from the Australian Bureau of Statistics. Reviewing the economic context allows you to gain a better understanding of the possible future movements in the economy and therefore possible impacts on, or risks to, your organisation's operations.

Risks can have a positive or negative impact.

Examples of economic risks

- Is there an opening for your organisation now that a competitor has gone?
- Is demand for your product falling?
- Will the organisation need to cut back on staff?

Understand the social context

The social context in which your organisation operates can affect its brand, reputation, commercial relationships and retail sales. For example, how is your organisation viewed in the wider community? What are the social trends and movements that may affect your organisation's activities? Read relevant documentation that identifies trends, community

awareness and attitudes, and social media strategies. Failure to understand and account for movements in social trends, such as the move towards sustainable and 'green' enterprises, the rise of social networking as an advertising medium and the need for financial accountability, is a risk.

Understand the technological context

It doesn't matter if you are in a high- or low-tech industry, changes in technology – from the smallest micro-processor or nanotechnology advancement to heavy plant equipment – can produce a risk to operations, particularly where these advances are also embraced by competitors. Does the technology produce real benefits? How much training and lead time is needed before benefits are seen? Technology also has a flip-side, where a positive risk outcome may appear if a competitor rushes to embrace unproven technology that then fails to deliver promised potential. By reviewing the technological context, you gain an understanding of what technologies are on the horizon and the risks that may emerge from either introducing or not introducing them. Read research into current technological advances and monitor industry publications for information relevant to your organisation.



Understand the policy context

Policy can refer to both government policy (often known as 'public policy risk') and internal policies. Policies must be reviewed to understand how risk management can be applied within existing internal guidelines. A review can also provide the impetus to push for policy change where risks are unable to be adequately managed otherwise.

Here are some examples of policy contexts.

Government policy

A particular party's stance on the environmental impact of a certain industry where the policy may present risks by impeding political support.

Internal policies

Policy issues that prevent adequate responses to emergent risks where internal policy was written before a law was introduced.

Example: understanding the context

The following example shows how one organisation reviewed the political, legal, social, technological and policy context.

'When our Queensland-based doors and windows business expanded into New South Wales in early 2011, we looked at the context we were moving into. Not only did we have to examine what our competition would be – the obvious first step – but also such things as the different building codes, licensing, permits and legislative requirements and so on. Much of this occurred after we had set up shop, which was hardly ideal.

'In 2014, following some sustained growth, we looked to move into Victoria and Western Australia. These turned out to be quite diverse markets in terms of legal, economic and social context. This time, however, we conducted a risk evaluation that highlighted the need for us to address these contextual differences prior to putting our toes into these pools. Victoria had quite different material and construction standards, while in Western Australia the codes varied dramatically based on regions, allowing for cyclone standards in the north. A major benefit of this contextual analysis was that we identified the parochialism demonstrated by WA consumers for our competitor's established brand.'

Practice task 4

Read the scenario, then complete the task that follows.

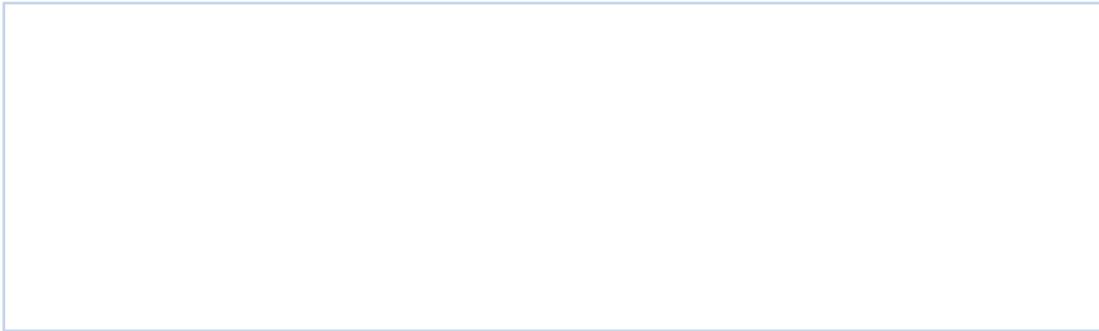
Scenario

You are the manager in a large South Australian printing company that is looking to open a new digital printing business offshoot in New South Wales.

1. Review each of the context areas below and list (as dot points) at least two areas for each context that may present as risks to this expansion.
 - a) Political context
 - b) Economic context
 - c) Social context
 - d) Technological context
 - e) Policy context

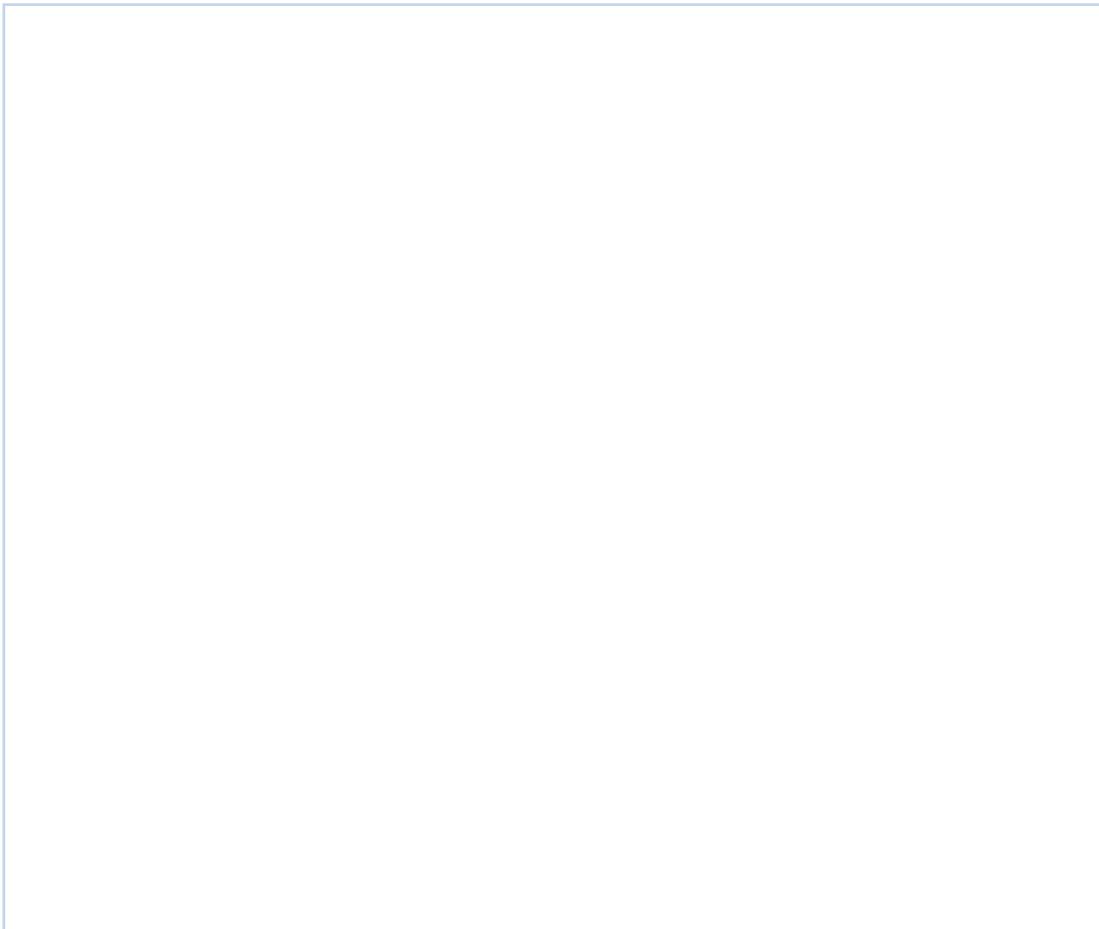
continued ...

... continued



2. Select three of the following areas and the corresponding legislation and list what you need to know about them when developing a risk management strategy.

- Duty of care
- Company law
- Contract law
- Environmental law
- Freedom of information
- Industrial relations law
- Privacy and confidentiality
- Legislation relevant to the organisation's operations
- Legislation relevant to operation as a business entity



1E

Review existing arrangements

Monitoring and reviewing are ongoing parts of the risk management process. Remember that the context in which a business or organisation operates is fluid and dynamic, with old risks disappearing and new risks emerging. For example, the organisation may have grown since risk treatments were introduced, new technology may have rendered old controls obsolete, or the market may have changed. Key areas within the organisation that must be assessed for strengths and weaknesses include the organisation's culture, structure, capabilities (personnel, systems and resources) and strategic directions, goals and objectives. Before you conduct a risk assessment, you need to review the existing arrangements for managing risks to determine how effective or ineffective they are.

Questions to ask when reviewing existing arrangements:

- How do your existing internal mechanisms address the current environment?
- How is policy influencing the processes and procedures?
- What are the strengths and weaknesses of these mechanisms?

Determine strengths

Look at the strengths of the current policies, processes or procedures and acknowledge where they have worked effectively to manage risk. These strengths can be carried forward into any newly resulting policy or amendments if appropriate to current circumstances.

Examples of policy strengths

- An effective alarm system has ensured a low risk of theft.
- Having firm contracts with suppliers has ensured time lines and costs are always met.
- Regular servicing of technology has ensured fewer breakdowns and less downtime.
- Effective market research has resulted in targeted products and increased profits.
- Forming partnerships has helped share the risk of a project.

Determine weaknesses

Look at previous documents and performance reports to identify any weaknesses in the current control measures used. Identify whether any mechanisms based on an older policy, process or procedure are sufficient to deal with a contemporary event. For example, insurance cover may now be inadequate but was appropriate at the time the strategy was developed. You may find that a weakness has occurred as a result of human error, or the incorrect or inadequate application of otherwise sound policy or guidelines.

Once you have identified the weaknesses, you need to learn from them and adjust your current arrangements, such as redefining policies or introducing contingencies to ensure unforeseen circumstances are addressed. Make sure you understand what you are looking for when identifying a weakness in existing arrangements.

Here are some questions to ask when identifying weaknesses.

Is it a failure to identify a previously unforeseeable event?

For example, illness of project personnel caused a project to pass its deadline and incur additional costs.

Is it a failure to predict technological breakthroughs?

For example, deciding not to introduce online purchasing has cost the company customers and money.

Is it a failure to communicate?

For example, procedures for informing stakeholders are not specific enough, with the result that key steps are often not followed.

Was the risk strategy too broad?

For example, were there no measurable goals?

Was a decision inappropriate?

For example, deciding to save money by using a new distribution company was a knee-jerk reaction that in fact cost the company time and money as the new company did not meet its obligations.

Example: identifying weaknesses in current risk management processes

Wheymore's Pastries, a supplier of pastries and bakery goods to a large national café chain, has an ageing risk management strategy in place.

Ageing risk management strategies might include:

- Risk from food contamination: illness attributed to food contamination has been minimal and it is recommended that no more than \$10,000 liability cover be retained for this purpose.
- On review, the risk manager found, in extreme cases, that litigation for food poisoning cases had seen damages awarded up to \$1.2 million. This was classified as a severe risk to the company and it was noted that this weakness would have to be addressed as a priority in the current review cycle.



Practice task 5

Source a risk management policy from your organisation. Read through the policy and consider whether the policy is adequate for the current operational context or whether there is room for improvement. You may have to speak with internal stakeholders to determine how effective it is. Mark 'strength' or 'weakness' against each control measure.



1F

Document critical success factors, goals and objectives

It's important to identify and document the outcomes of the research you have done when preparing your risk management context. By doing this you can be confident that you understand and are able to develop and manage comprehensive strategies that target the particular risks that face your organisation. You now need to be able to document the factors that are critical for success and your target outcomes, goals or objectives.



Identify critical success factors

It's important to know how you will measure the success of your risk management arrangements. A successful strategy cannot be measured by simply looking at how well the company is running or finding that no risks have eventuated, as this can be due to the contributing factors of risk not being present or even pure luck. To measure your strategy's success, you also need to include other measurable factors. Here are some areas that most people agree are essential for success. Ask experienced practitioners, your trainer or your manager whether there are any other factors they think are important for risk management success.

<p style="text-align: center;">Scope</p> <p>The scope of the risk management should be correctly identified; if it has not been, then you may waste your time developing an inappropriate or ineffective strategy.</p>	<p style="text-align: center;">Stakeholders</p> <p>All stakeholders should be consulted and agree on the scope of the strategy; if there are issues that have not been resolved, they may arise later and give rise to additional time or costs.</p>
<p style="text-align: center;">Resources</p> <p>Risk management should be sufficiently resourced; if it is not, a strategy may be ineffective or counter-productive.</p>	<p style="text-align: center;">Goals</p> <p>Goals and outcomes should be clearly defined, realistic, achievable and measurable.</p>

Set goals, objectives and outcomes

Before you develop a risk management strategy, identify and document the desired outcomes. Setting goals provides you with benchmarks you can use when you evaluate the success or otherwise of your risk management process. Many people apply the SMART principles to help them ensure their goals are specific, measurable, attainable, realistic and timely. To say you will eliminate all risk, for example, is likely to be unachievable. It would be better to say you will reduce risk to an acceptable level or provide sufficient offset of risk through risk sharing or reduction methods for it to become acceptable; or that the risks have been documented and measures put in place should a contingency arise.

Here are the SMART principles.

Specific

Target and clearly define a specific area that you want to improve.

Measurable

Suggest an indicator of progress; quantify if possible. Determine how you will know the goal has been achieved.

Attainable

Agree what the goals should be and keep them achievable in the time frame.

Realistic

Identify what results can realistically be achieved given the available resources, knowledge and time.

Time framed

Specify when the result can be achieved; make sure there is enough time to achieve the goal, but not too much time.

Use the SMART principles to set goals

Use the SMART principles to set a goal for each specific item in your scope. For example, if the scope of your risk management includes technology, you might have a goal 'to reduce technology breakdowns by 70 per cent within three months'. By applying the SMART principles, you might find three months is too short a time to realistically improve technology performance, so you might adjust this goal to six months. Similarly, if your organisation uses suppliers, a goal might be 'to ensure suppliers meet organisational requirements'. This is a broad and less-defined goal, so you may need to articulate what the requirements are, such as contracts, timely delivery and high-quality service.

Document goals, objectives and outcomes

Record your goals, objectives and outcomes so that you have a road map to keep you on task; you can then revisit and modify the content as your risk environment changes. A documented set of goals should be advertised to stakeholders for comment and feedback. It should also be advertised to the wider workforce, to allow the process to be transparent and encourage participation.



Example: setting goals

A gym has lost several trainers recently due to injuries. Given that much of the gym's income is generated by the personal trainers, management wishes to implement a risk management strategy for training staff to reduce lost time and increase the business's productivity. The scope includes all trainers at the gym. The goal or desired outcome of this risk management strategy is 'to reduce the rate of trainer absence (due to injury) to 10 per cent of the total trainers on staff by the end of a three-month time frame'.

The business goals will be achieved by:

- implementing a roster for trainers
- expanding the pool of trainers
- ensuring all staff are trained for each piece of equipment and technique, as well as in work health and safety and stress and conflict resolution.



Practice task 6

1. Is the goal set in the previous example SMART? List each of the SMART goals as they are applied in this example, and include any information you believe may have been left out or overlooked in this example. Provide a re-worded example of the goal to include each of the SMART elements.

2. Use a current goal or one you have written for your organisation's risk management plan and rewrite it to make sure it follows the SMART principles. Alternatively, write a goal for a risk management plan for an organisation you are familiar with.

3. List three factors that are critical to the success of your risk management process.

1G

Obtain support for risk management activities and communicate the process to stakeholders

Risk management cannot operate without the full support of all stakeholders and participants in the process. It is especially important for senior management to commit to the process and show leadership. Management support is crucial in seeking approval for the risk management plan, gaining authorisation for allocating human and physical resources, and implementing the plan effectively. Communication is the key to gaining and having continued support, especially in motivating staff to comply with the procedures and processes. You might communicate the benefits of risk management to all participants, stakeholders and staff members via various media such as presentations, meetings, newsletters, email and websites to encourage a risk-aware workplace culture. It may also be useful to invite guest speakers, such as insurance brokers or commercial financiers, to give presentations on external benefits to the company of conducting risk management activities.

It is important to remember that as risks emerge, evolve, mutate or disappear, there is a requirement to change your process with it. Consequently, you need to maintain support from directors and management to modify processes to achieve risk management goals and ensure the ongoing success of the process.

Communicate the benefits of risk management

In your communications, you should help stakeholders understand the wider implications of risk management. If you are doing a presentation, you should discuss how a risk management strategy enables an organisation to protect its assets, allocate resources wisely, reduce the chance of making strategic mistakes and help minimise financial losses. You might also discuss how having a sound risk management process helps an organisation take advantage of opportunities and plan more effectively, as well as minimise the threat of possible negligence claims. You might mention how the process shows good governance and sound business practices and provides a solid basis for doing business, taking on partnerships and forming alliances.

Tips for creating a presentation

- Express benefits in terms your audience can understand. Don't use technical words or jargon your audience may be unfamiliar with.
- Frame the process in terms of corporate objectives.
- Relate the process to previous events, current conditions or planned future courses of action.
- Relate the process to the organisation's competition: What is the competition doing? Will this give us a competitive advantage?

Communicate the risk management process and invite participation

The best way to achieve support and ultimate success for any risk management process is to maintain open and transparent lines of communication with your stakeholders. You need to pass on different types of information to the various groups that have a direct stake in the risk management process. Remember, you want to get generic information about the risk management process out to as many of those involved as possible, while targeting special-interest stakeholders. Make sure you have included the following people, and know how and why they are involved.

All staff within the organisation

Type of information you need to provide:

- How the process will affect them personally
- Benefits to themselves and the company
- Their role in the development process
- Meeting times
- Their role in following the control measures

Type of information they can provide:

- Potential risks
- Solutions they have applied to risks

Senior management, directors

Type of information you need to provide:

- The impact on operations and time required
- Steps to be followed in the risk management process
- What input they are required to provide
- What the process will achieve and draft outcomes
- Risk management areas to be addressed
- Time lines for ongoing review
- How they can support the process

Type of information they can provide:

- Organisation's business plans and strategic directions
- Annual report showing current situation (sales, competition, success or weakness of current risk management strategies)
- Advice and suggestions from previous experience

Specific teams or business units

Type of information you need to provide:

- Details about the risk management process
- What they need to do
- How this will affect their existing business objectives
- Whether they will have to change their processes
- The likely impact on their human resources
- Other stakeholders
- Meeting schedules

Type of information they can provide:

- Potential risks
- Solutions they have applied to risks

Technical experts

Type of information you need to provide:

- Details about the risk management process
- When and where they will be required
- What they need to do
- How their business/job role may be affected
- Meeting schedules

Type of information they can provide:

- Possible technological risks
- Strategies for contingencies

External stakeholders

Type of information you need to provide:

- Details about the risk management process
- The cost of the process to the company
- How their business with the organisation may be affected
- Benefits to their organisation
- Whether their business practices need to be changed
- Stakeholders
- Meeting schedules

Type of information they can provide:

- Potential risks
- Solutions they have applied to risks
- Previous arrangements that were successful

Use appropriate communication strategies

Communicating the process does not rely on endless meetings with all concerned, and does not require constant one-on-one time with every stakeholder. Communicating the process can be done via print, electronically or a presentation. The chosen method/s of communicating your information depends on variables such as the size of your stakeholder body, the number of participants in the process, the scope and the time frame for the activities.

Communication options can include:

- Training and risk workshops
- Briefings
- Report back presentations
- Communication booklets
- Websites
- Newsletters
- Intranet/emails
- Articles and periodicals
- Corporate plans and strategies

Example: involving all stakeholders

At a small Victorian boatbuilding and fibreglass factory, the managers recently began putting in place a risk management strategy for the safety of their workers, facilities and the environment. Their approach was to sell the environmental aspects to the public and the safety aspects to their staff and contractors.

As part of the process, they invited the general public to participate by providing environmental concerns and feedback, while union and health and safety representatives, WorkSafe (Vic) representatives and several worker representatives were asked to sit in on the initial planning meetings and offered places on the risk management committee. The results of the meeting, along with the names of the new committee, were published in the local community newspaper and the company's staff newsletter.



Practice task 7

1. Imagine you are the risk manager (with a small team) for your organisation or one you are familiar with. Draft an email to the board or senior management of your organisation requesting support for the risk management process. Include information about the goals, scope and benefits of the process and list the areas in which you intend to conduct risk identification.

2. What communication methods would you use to inform internal stakeholders about the overall progress of the risk management process?

3. What communication methods would you use to gain formal support from management and external stakeholders?

Summary

1. Any risk management process begins by reviewing the organisation's existing processes, procedures and requirements for risk management.
2. Once the baseline procedure has been established, scope should be determined to ensure resources can be allocated efficiently.
3. Stakeholders – all those internally and externally with a vested interest in risk management in the organisation – are identified and their issues noted.
4. Risk context is established by looking at the current political, economic, social, legal, technological and policy environments.
5. Arrangements currently in place to deal with these risks are reviewed.
6. Risk criteria are defined and goals and success factors are set using SMART goals where possible.
7. Support for the risk management process is gained through positive engagement, open communication and consultation with stakeholders.

Learning checkpoint 1 Establish the risk context

This learning checkpoint allows you to review your skills and knowledge in establishing the risk context.

Part A

Access and review workplace policies and procedures from your organisation or one that you are familiar with. Policies and procedures must include those relating to:

- risk management processes or plans
- WHS legislation
- equal employment opportunity laws
- anti-discrimination laws
- competition and consumer protection
- privacy laws.

Review each policy and procedure and answer the following questions.

1. What is the significance of reviewing and analysing the existing risk management processes, procedures and requirements before updating a risk management plan?

2. Explain why it is essential to clearly identify the scope of your risk management.

3. What specific types of documentation and sources of information should be reviewed during the 'establishing the risk context' stage of the risk management process?

4. Reword the following statement into a goal (or two) for your risk management process: 'We are conducting risk management at this time to ensure our shareholders and investors maintain confidence that the board is comfortable with its current risk exposure'.

5. Why is it important to gain support for risk management activities within your organisation?

Part B

Document the following information as you prepare to develop a risk management plan for your organisation, unit or area:

- An overview of the operations of the organisation
- A brief overview of the strengths and weaknesses of current arrangements
- The scope of your risk management processes
- The internal and external stakeholders, their priority ranking and their issues
- The political, economic, social, legal, technological and policy context for your risk management strategy
- The goals and objectives for the areas in your scope
- The critical success factors for the areas in your scope
- How you will communicate with all parties



Part C

Read the case study, and then answer the questions that follow.

Case study

In early 2013, Lily Hi, a clothing retail company from NSW, launched into the Queensland and Victorian markets simultaneously. Before the launch, the company conducted a minimal risk management process: it determined a very limited scope that included only the financial aspects of competition. Only management was involved. Their stated goal was to 'be successful'.

The company struggled against competition and local government issues in Victoria, which led to the store closing and Lily Hi withdrawing from the market in that state.

The case highlights a lack of understanding of the risk context faced in Victoria, but may have also been a case of over-exuberance on behalf of the management – where perhaps the risks of moving into two markets simultaneously were too great when combined.

1. What mistakes did the management of Lily Hi make?

2. List at least three strategies the management of Lily Hi could put in place to ensure this doesn't happen again.

3. How would knowing about AS/NZS ISO 31000:2009 Risk management – Principles and guidelines have helped the management at Lily Hi?

Topic 2

Identify risks

Identifying all the risks your organisation or department faces is the next step in a risk management process. Use your team members and other stakeholders to ensure you identify all potential risks. Where your risk management scope extends beyond your personal business area or unit, it is essential you include appropriate specialists from those areas to help derive the most comprehensive risk identification possible. Although there are risks common to all areas of an organisation, each business unit may have risks specific to their operation. To be sure you identify risks thoroughly and accurately, you need to go through a structured process using relevant tools and techniques.

In this topic you will learn how to:

- 2A Invite appropriate people to assist in identifying risks
- 2B Research risks
- 2C Use tools and techniques to generate a final list of risks

2A Invite appropriate people to assist in identifying risks

When identifying risks, it is essential that everyone involved in the organisation or who is affected by risk management decisions is consulted and has the opportunity to provide input. These people can contribute their expertise and experience to help you prepare a list of potential risks over a range of areas. By doing this, they feel valued and gain a degree of ownership of the risk management process.

In addition to inviting internal personnel (such as managers and staff) to participate, you may need to target specific stakeholders, advisors, technical experts or other specialist personnel. When a course of action may affect the public, you might need to consult residents, councillors and other local stakeholders. The type of specialist who can assist you with risk identification depends on the types of risk you expect to encounter. By using everyone's knowledge and skills, you can generate a list of risks you may not have considered.

Identify parties for consultation

Here are some of the stakeholders, consultants and specialists you may need to consult and invite to participate in identifying risks in your organisation or business area. Each can offer specific information and assistance.

Finance

- Accountant (internal): audited books, profit/loss details, financial impact of previous events, costings for risk servicing, financial impacts of negative (or positive) risk events
- Directors/members of the board (internal): strategic planning, upcoming events, mergers, acquisitions, disposals
- Auditors (external): financial risks associated with other entities
- Financiers (external): risks associated with borrowings, refinancing, currency movement (exchange rates, interest rates)
- Shareholders (external): their perceptions on future events, whether they would participate in share buybacks, splits, new issues, etc.

Sales and marketing

- Marketing managers (internal): market research on current conditions, budgets, advertising campaigns
- Marketing research company (external): broader market research budgets, advertising campaigns than may be possible using internal assets
- Members of the public (external): attitude toward the company (reputation), level of trust in the company's product or service
- Shareholders (external): initial feelings about future advertising campaigns, effectiveness of current marketing

Security

- Department heads (internal): concerns regarding personnel, general feeling towards the company by employees (HR risks)
- Security firm (external): physical and electronic security risks and vulnerabilities, industrial espionage

Equipment

- Equipment operators: intimate knowledge of safety risks associated with operating specific plant, equipment or machinery

Safety

- WHS representatives (internal): conversant with company WHS policy, and probably national/state legislation
- WHS advisors (external): conversant with state and federal WHS policy, codes, legislation and regulations
- Trade unions/labour representatives (external): represent members' conditions at work
- Specialists: provide in-depth knowledge of specified hazards – chemicals, pharmaceuticals, asbestos, corrosives, etc.

Personnel

- HR managers (internal): identifying personnel issues, morale, training deficiencies, gripes or complaints
- Security firm (external): advice on identifying potential for theft, fraud, malicious damage

Legal

- Directors/members of the board (internal): due diligence matters, corporate governance issues, disclosure requirements, legal requirements of directors
- Legal advisors (external): corporate law advice regarding business entity dealings, advice on product liabilities, general advice on legal position in litigation, copyright, etc.
- Specialist lawyers (external): specialist legal issues or matters, litigation, copyright and patent infringement, etc.

Political

- Political analyst (external): party doctrine advice, political affiliations, possible direction of policy by governments, political sensitivities

A strategy for consultation

Once you know who you are going to invite to help you identify workplace risks, you can prepare a strategy for how this is going to happen.

Here are some consultation procedures to follow when preparing a risk strategy.

Contacting participants by formal letter, mail or telephone

Explaining the scope of the risk management

Describing the expertise they can offer

Arranging a forum for their contribution such as a one-on-one meeting, interview discussion, a focus group or a public consultation meeting

Ask participants to bring along or send you relevant documents that justify their points of view

Example: inviting specialists to identify risks

In conducting a risk assessment for a large hardware firm, area manager James identifies several areas in the scope that are beyond his field of expertise. This includes the requirement to assess the risk of unbudgeted repairs to ageing storage and logistics facilities, particularly where it is suspected that asbestos is present. James also identifies that there is insufficient expertise in dealing with asbestos and the impact of treating such a risk within his organisation, so James invites specialist asbestos removal personnel to assist with the assessment.



Practice task 8

1. Who would you invite to assist you to accurately determine the risks in your context? Make a list that includes all specialists – internal and external – that you may require and what they can offer.

2. Describe the method/s you could use to get them to help you identify risks.

2B

Research risks

Once the scope of your risk assessment has been determined, you may already have some idea of the associated potential risks. If you are working with an existing risk management plan, it is likely that some risks have been already eliminated and new ones have emerged. If the plan covers the whole organisation, there may be risks associated with other divisions, departments or work units external to your direct area of responsibility that you may not be aware of. For these reasons, you need to do some research to ensure you identify all the major risks within the scope. While part of this research includes involving the stakeholders, consultants and other people you have already identified as being able to provide expertise and input, these people have localised knowledge of what risks they face in their own context, but not necessarily at a group or enterprise level. Therefore, you cannot rely on this method alone. There are several ways to research risks that may be present, including gathering statistical information, identifying lessons learnt from previous projects and conducting market research.

Use a range of research methods

Here is a list of relevant research methods to use. Once you have determined the way in which you will conduct your research, you need to put this into action. As you work through your research, document the risks you and others identify. This initial list will later be refined and organised, then analysed in depth.

Statistics

- Gather information about existing and potential risks for all the areas of your scope relevant to your context of operations, such as financial, property, market, legislation and personnel.
- Consult sales statistics, competitor data, work health and safety information, and financial statistics.
- Access agencies such as the Australian Bureau of Statistics or market research organisations for statistics on market share, population, sales trends and economic forecasts.

Business areas

- Managers and staff in other business areas within the organisation may be able to tell you about similar, coincidental or concurrent risks they are facing.
- This information can be obtained through formal, structured sessions or one-on-one meetings.

Previous activities

- Formal reports and anecdotal evidence can tell you what risks were faced, what unexpected risks arose and how they were managed in similar projects or activities that have previously been undertaken. What lessons were learned?
- For example, if a project went over budget (the risk) it may have failed to include incidentals (the cause of the risk). Being aware of this might ensure you don't make the same mistake.

Market research

- You might ask your sales and marketing division to conduct market research into potential risks associated with your organisation's business operations, such as demand for product, competitor activity and new technology.
- Alternatively, you may need to commission research from an external marketing company to provide a new or fresh insight into consumer sentiment, cultural context and market directions.

Previous experience

- It's useful to harness the experience that others have gained through their current work, previous jobs or life experience. They might be able to mentor you or show you how to predict the cause of a risk and minimise its impact. For example, pooling experiences from within your organisation may mean you gain a better understanding of how to use certain equipment, of the environment or context in which the company operates, or of the stability of suppliers and clients. You might identify risks you have never considered before.

Public consultation

- Where a course of action may affect the public in any way, it is worth consulting residents, local officials and the wider populace to determine what type of risks there might be. For example, public liability for outdoor events; environmental risks to endangered local species in the case of a building development project.

Literature review

- Operational guides, user manuals and operator instructions contain advice on risks or hazards associated with equipment.
- A SWOT analysis may have identified risks. For example, an opportunity to introduce an online business department might identify risks such as a lack of sales due to poor marketing, financial blow-out due to poor budgeting or increased sales due to correctly identifying the target market.
- An audit may have highlighted areas of concern; for example, repetitive work, storage of chemicals, security.

Generate a draft list of potential risks

Prepare a draft list of the risks that stakeholders and your research have identified that apply to your scope. This list will be refined as you carry out further research and analysis until you have a final list that you can take to stakeholders for confirmation. It's a good idea to categorise the potential risks under the areas the organisation uses in its risk management plan, such as financial, technology and operational. As you identify the risks, it's also useful to find out the nature of the risk. What factors are contributing to the cause of the risk? Are they internal or external?

Example: identifying stock market risks

It is important to consider stock market risks before entering any share purchase.

When investing in or making money from initial public offerings (IPOs) on the stock exchange, proper education and careful research are vital. Research must examine the risks of investing in these offerings, such as business, financial and market risks.

Many investors and large investment firms have been burned during market downturns by not adequately hedging, or insuring, their large exposures to single stocks. Risks were accepted without an adequate understanding of either the historical or current risk context, due to lack of research into the risks.

Practice task 9

1. In the context of today's stock market, there may be many risks a risk manager may not be aware of or not fully understand. Imagine your business unit within your organisation (or one you are familiar with) is about to spin off as a market capitalised, independent listed company. Research and list the market risks associated with your business unit undertaking this course of action.

2. Use the risk management process you are developing for your organisation, unit or area and list the methods you would use to research risks. Explain why you have chosen these methods.

3. Prepare a list of potential risks that your research has identified.

2C

Use tools and techniques to generate a final list of risks

Make sure the draft list of risks you have identified is as comprehensive and specific as possible. Are you positive you've captured all the risks applicable to your scope and not just those in a few areas of expertise? How many of the risks you identified are either irrelevant or insignificant when contextualised?

At this point you need to meet with your stakeholders and invited participants to help you identify the most complete and thorough list of risks facing your scope. To achieve this most effectively, you need to apply a range of tools and techniques. However, it is important to remember that regardless of the tools or techniques chosen, the result is only as good as its inputs; that is, if you make use of specialists from the fields or areas of your scope, you will have a far more complete and extensive list of risks than you may otherwise generate.



Brainstorm

Brainstorming is a technique commonly used to identify a range of ideas from many different perspectives. Remember to take note of all responses from participants. The results are then filtered to eliminate duplicates and each suggestion is further refined for clarity. To gain the most from brainstorming, be well prepared with a structured plan to conduct the session. For example, you might go through the categories identified in the business plan and ask what the participants think are the possible risks for each one.

Here is an example of suggestions made for two risk areas.

Suggestions for risk areas

Market-centred risks may include falling product demand, competition, lack of diversity of products, changing economic conditions, and sales and marketing management.

Technology risks may include equipment breakdown, viruses, lack of training, poor management and an outdated system being used.

Use fishbone diagrams

A fishbone or Ishikawa diagram (named after its inventor) is often used in project management for cause and effect identification. To apply this to risk identification, you start with writing the category on the 'backbone' of the fish then spin-off into the smaller 'bones' as you identify risks and refine your ideas. The risks become more focused and clearer.

Here are the steps to prepare a fishbone diagram in collaboration with participants.

Preparing a fishbone diagram

Prepare the basic framework of the fishbone diagram on a whiteboard or a large piece of paper.

Define the category that needs to be addressed and write it in clear and simple terms in the fish's spine; for example, 'Personnel'.

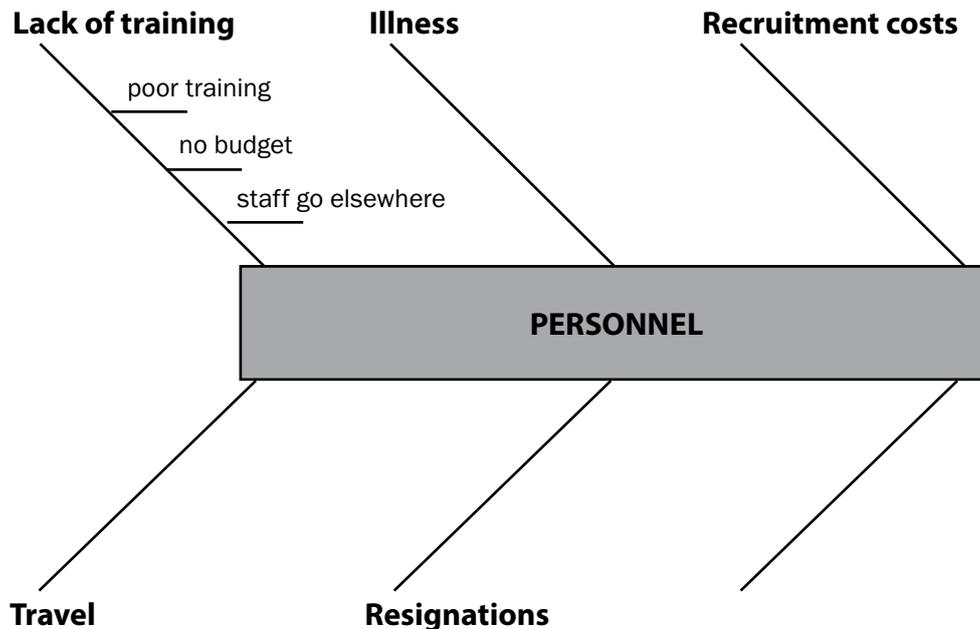
Identify and define the risks associated with personnel on the major 'bones' and write these at the tips. These headings could be developed through a brainstorming session focusing on the category in the fish's spine.

Tease out the causes or contributing factors (risks) by further brainstorming, and adding these ideas and suggestions to the smaller bones on the diagram.

Interpret the fishbone diagram once it's finished to develop a checklist of risks.

Example: fishbone diagram

Here is an example of a fishbone diagram. It shows how personnel risks might include lack of training, illness, recruitment costs, travel and resignations.



Use flow charts

Another process management and analysis tool is a flow chart. This method allows you to progress ideas through logical steps. This is not so much a development tool as a process-streaming tool, such that a flow chart can be used to spawn ideas by analysing each step of a project or process for potential risks. By looking at each step and documenting it on the flow chart, you may be able to identify the risks inherent in each step.

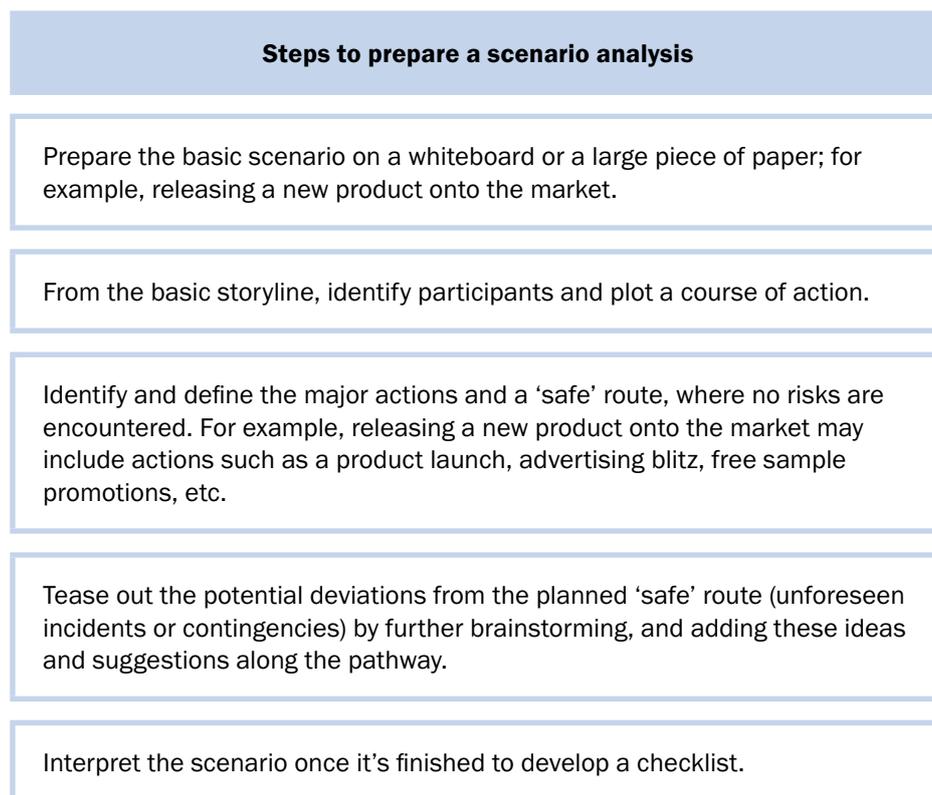
Steps in property management would involve:

- screening the potential tenants
- signing them to a lease
- making regular property inspections.

Use a scenario analysis

Working from a given scenario can be an effective way to identify risks from ideas that may not come to mind in a normal brainstorm-type session. Scenario building lets stakeholders review each stage of the process, identifying all possible outcomes from each course of action within the scenario and also the most likely occurrences (higher risk of actuating). From the list of likely outcomes, a prioritised list can be developed to help managers with future contingency planning.

Here are the steps to prepare a scenario analysis in collaboration with participants.



Generate a final list of risks

You have now researched and identified a number of potential risks that apply to your scope.

Checklists are a useful way to manage data. Simply list the risks as you identify them through your research, brainstorming, flow charts and analysis. Remember to categorise them as you go under specific categories according to the organisation's risk management process and procedures, such as financial, technology and business operations. Check with stakeholders and other participants to ensure they agree the risks identified are relevant and may occur. At this point the main objective is to list the risks to prepare for a more detailed analysis.

Example: identifying risks

These two examples show the benefits of using research and consultation to identify risks.

Using a scenario analysis

In a risk management team meeting for a small packaging products company in Perth, more than 40 risks are identified by the research team investigating up-scaling operations. However, a subsequent brainstorming session follows with an applied scenario analysis (playing out all possible outcomes in terms of technology, efficiency gains, market/competition) that negates over half the risks as being acceptable or insignificant, and a further eight as being irrelevant to the context. This allows the team to concentrate fully on the remaining 11 risks, reducing the overall risk to an acceptable level for management to proceed with the project.

Consulting

The board of Soulcedo Packaging and Plastics initiates a risk management plan for safety at their manufacturing facility in Western Sydney. The process of risk identification is passed to a three-person team comprising a safety officer, a union steward and the facility manager. The first point on Soulcedo's agenda is to invite specialists in to assist in recognising and understanding the risks in the plant's processes. The specialists include a chemicals advisor, a technical advisor from the company that made the plant's machinery, a representative from the fire department and an external work health and safety auditor. With the help of these extra personnel, the Soulcedo team shares research information about the various safety risks and hazards that are present at the plant. These are quickly filtered, and generic risks and hazards are identified, to fit the scope as provided by the board and refined earlier.

Practice task 10

1. Select one of the methods outlined in this section to generate a list of risks for your organisation or unit, or one you are familiar with.

2. Explain why you used this method.

Summary

1. In identifying the risks to your organisation, it is wise to engage experts or specialists in the areas or fields within your scope, both internal and external. They provide you with the greatest opportunity to capture all relevant risks.
2. Once you have identified your risks, research them thoroughly using a range of sources such as existing data and statistics, market research, literature review, lessons from experience and public consultation.
3. Use a variety of appropriate tools and techniques to further identify risks and ensure you have covered each area thoroughly. These may include brainstorming, a fishbone diagram, checklists, flow charts and scenario analysis.

Learning checkpoint 2 Identify risks

This learning checkpoint allows you to review your skills and knowledge in identifying risks.

Part A

1. Explain why it is essential for all stakeholders to be involved in identifying risks.

2. In the table below, list five research methods that may be used in determining operating risks relevant to a small car-tyre retailer, and describe what general type of information may be retrieved or gained from these methods. An example has been done for you.

Research methods	Operating risks
Stakeholders	<ul style="list-style-type: none">• Speak with owners about previous difficulties to understand potential business risks.• Seek customer feedback about both positive and negative experiences to understand process requirements.• Speak with accountants about financial risks.

Research methods	Operating risks

3. What advantages are there to using a scenario analysis to identify risks?

Part B

Read the case study, and then answer the questions that follow.

Case study

Greenville Emergency Management fire service personnel have conducted a risk assessment for fire risks at a suburban distribution centre that is adjacent to chemical plants and virgin bushland on two sides. The process is handed to new staff as an exercise to help their learning and understanding of the risk assessor's roles. The staff have to research current arrangements such as warning systems, staffing levels, the chemicals involved, expertise available to fight a fire, and how much time there may be before a fire approaches.

The scope of the assessment is to determine health and safety risks to workers within the distribution centre should a bushfire come through the area. They are asked to use some analysis techniques to generate a list of risks.

1. What personnel should be invited to participate in the risk identification and research process?

2. What research methods could be applied?

3. What appropriate tools and techniques could be used to ensure all possible risks have been identified?

Part C

In the organisation you work for or one you have access to, use a range of appropriate personnel, research methods and analysis techniques to identify risks in the organisation or a business area.

Present your analysis under the following headings, or use a table:

- Stakeholders: the people you will speak to and what they can offer
- Consultation methods used
- The methods used to research the risks
- Tools and techniques used to generate a final list of risks
- A final list of at least five risks, generated in consultation with relevant parties

Topic 3

Analyse risks

Once the risk identification process has been completed, decisions must be made about analysing, evaluating, prioritising and treating the risks. In this way you can determine the likelihood of different risks occurring, and which risks pose the greatest threat or would represent the worst consequence for the organisation. A risk analysis process allows you to more accurately assign resources to threats that are highly likely to occur and would carry the most significant consequences for the organisation, thus ensuring the most efficient outcomes.

In this topic you will learn how to:

- 3A Assess the likelihood of risks occurring
- 3B Assess the impact or consequences of risks
- 3C Evaluate and prioritise risks for treatment

3A

Assess the likelihood of risks occurring

You need to determine how likely it is that the organisation, business unit, individual, project or activity will be exposed to the risks you have identified. Frequency of exposure to a risk and the likelihood of it occurring are usually expressed in terms ranging from whether you are certain an area will be exposed to the risk (very likely), to whether you think it is possible (likely), to whether it would be a rare occurrence (unlikely). Some organisations use terms such as expected, probable, possible, improbable and rare.

Likelihood is usually expressed in terms of:

- probability (the chance that when a risk exists, a consequence will follow)
- frequency of exposure to the risk (how often and for how long the source of the risk exists)
- a combination of both.

How to assign an accurate ranking

The first thing to do is check what systems are already in place and what terminology is used to analyse, manage and control risks. These systems should form the basis of your risk analysis. Make sure you have relevant and accurate information available for your analysis.

To be able to assign an accurate ranking, you need to:

- look at past records, reports and the organisation's risk management plan to see how often the organisation experiences the risk and whether it is prepared for it
- question relevant people who have had similar experiences to see what ranking they would give the risk
- analyse market research that may predict future circumstances
- conduct research using the internet, journals and trade magazines, government policies and competitors' experiences to understand the nature of the risk and the likelihood of the organisation's exposure to it.

Types of analysis

The three types of risk analysis are qualitative, semi-qualitative and quantitative. The use of any one of these or combinations of them depends on the data available.

In practice, qualitative analysis is generally used to obtain an indication of risk levels. It is only when more specific and precise indicators are required that quantitative analysis is applied to risk analysis.

Qualitative analysis

Qualitative means using descriptive words or word pictures in scales to analyse the likelihood of an event occurring and its consequences or outcomes. These can be used to analyse different risks in different contexts or situations by simply varying, adapting and adjusting them accordingly. Most business risk management scenarios use qualitative analysis. A descriptor is used and an alphabetical grade is applied to the level of likelihood. You may find your organisation uses similar but different words such as 'expected' instead of 'extremely likely', 'probable' for 'likely' and 'improbable' for 'unlikely'; a rating may be numerical or alphabetical.

Details about the likelihood of risks occurring are shown here.

A: extremely likely (expected)

This rating and descriptor equates to:

- The incident will most probably occur under almost all circumstances.
- The risk has more than a 75 per cent chance of occurring.
- The risk will occur within the next six months.

Example: A rival organisation within your industry also bids for lucrative supply contracts with the government.

B: likely (probable)

This rating and descriptor equates to:

- The incident will probably occur under most circumstances.
- The risk has a 50 to 74 per cent chance of occurring.
- The risk will occur within 18 months.

Example: Loss of staff.

C: possible

This rating and descriptor equates to:

- The incident may occur under certain circumstances.
- The risk has a 25 to 49 per cent chance of occurring.
- The risk will occur within 36 months.

Example: New commercial off-the-shelf software integrated into your organisation does not fully meet specifications or requirements and requires modification.

D: unlikely (unexpected)

This rating and descriptor equates to:

- The incident will probably not occur.
- The risk has less than a 25 per cent chance of occurring.
- The risk may occur within 48 months.

Example: A competitor employs risky predatory pricing tactics to drive your organisation out of the marketplace.

E: rare

This rating and descriptor equates to:

- The incident is highly unlikely to occur, or will only occur under the most exceptional circumstances.
- The risk is not likely to occur within the next five years.

Example: A staff member dies on the job while complying with general safety procedures.

Semi-qualitative analysis

Semi-qualitative analysis is qualitative analysis with a numerical weighting index. However, the numerical value allocated for each qualitative scale is not related to the actual magnitude of likelihood or probability of consequence. It only provides an order of magnitude for analytical purposes. It does not provide real values, as would be the case in a quantitative analysis.

There is no standard weighting index, but a weight is applied by the analyst. Semi-qualitative analysis is often seen in financial analysis in relation to market sentiment trends.

Example: using semi-qualitative analysis

Semi-qualitative analysis can be presented in table form to link quantitative data to qualitative data. For example, the rating 1.0 is given for an extremely likely occurrence (equivalent to a qualitative A rating), decreasing through 0.75 (likely, a B rating), 0.50 (possible, a C rating), 0.25 (unlikely, a D rating) and 0.1 (rare, an E rating).

As these can be multiplied out (against likelihood) to achieve a final risk rating value, we generally don't rate any risk '0'. The appeal (and to some the problem) of this type of analysis is that the scale can provide for 'in between' ratings, such as 'fairly possible' between possible and likely.

Rating	Descriptor	Equates to qualitative value
1.0	Extremely likely	A
0.75	Likely	B
0.50	Possible	C
0.25	Unlikely	D
0.1	Rare	E

Quantitative analysis

Quantitative analysis uses data from a variety of sources such as statistical data, engineering reports, sales figures, financial records, or wherever figures or 'quantities' are used or employed. The quality of this type of analysis depends on the accuracy and reliability of the values used. Essentially, quantitative analysis is a subset of mathematical statistical analysis.

Statistical analysis does not provide us with a numerical value to express the likelihood, but rather provides us with figures-based evidence of the likelihood. Using information from an audit, the following outlines how one manager assessed the likelihood of risks occurring.

Likelihood of illness from a risk

For every 50,000 units of a food product packaged at the site, 2,500 have been found to be incorrectly sealed.

The incorrect seals lead to the potential risk of customers becoming unwell.

Therefore there is a five per cent risk of exposure to illness.

Statistical analysis can thereafter determine how many people exposed to the unsealed product actually become ill.

Example: assessing the likelihood of risks

Here is an example of a manager assessing the likelihood of risks.

'The first thing I do is look at what's happened before in our organisation to see the likelihood of it happening again. For example, we already have reliable data on staff absences and movement, technology breakdowns and work health and safety incidents.

'I then look to see what's happening in the organisation's business environment. For example, we're getting a new computer system that will be backed up by our old system. At the moment a breakdown is a possible risk. After we get the new system, the risk will be greatly decreased so we'll downgrade the likelihood to unlikely. Installing previously untried new software produces a possible chance of system conflicts. Conversely, introducing a new operating system or even a major upgrade to an existing system (for example, a new version of Windows) would be likely or extremely likely to cause some type of compatibility issue with existing aftermarket software applications.'

Practice task 11

Use qualitative analysis to identify the risk rating for the following risks. Justify your answers with a short description of your assessment.

1. Your home or workplace having a catastrophic fire (being totally destroyed or severely damaged).

2. Your car being stolen.

3. Credit card fraud impacting your company (or self).

4. Someone in your workplace being sick on the Monday after a football grand final.

3B

Assess the impact or consequences of risks

You now need to understand and determine all the possible outcomes if the risks you have identified occur. By identifying what might happen, you can determine and put in place measures to reduce, offset or eliminate the risk. Select a risk that has been identified, then pose the question, 'What might happen if this risk occurred?'

Assessing the consequence of risks is similar to the way you assess risk: run brainstorming sessions, seek expert help and check existing records to see what happened in the past. Risk analyses are generally directed at the negative consequences of risks. However, risk management is also able to identify and prioritise opportunities.

Here are some negative and positive consequences that may arise from risks occurring:

- Key staff might be absent due to illness. Consequently, the time lines for the activity might increase and the activity may not be completed on time.
- Staff may not have sufficient knowledge or skills to complete their assigned tasks. Consequently, the activity might not meet quality assurance standards.

A member of the group may have relevant expertise you are unaware of (a potentially positive risk). Consequently, the activity might be undertaken and completed to a higher level of competence than originally planned.

Use a consequence scale

A consequence scale guides you in determining the ranking given to the consequence. A numerical grading is applied along with a descriptive rating scale. Make sure you are familiar with the descriptors your organisation uses. Other rating terms commonly used are 'disastrous', 'severe', 'extreme', 'minimal' and 'negligible'. When referring to financial consequences, values differ according to the size and nature of the organisation. For example, in a very small organisation 'minor costs' may be any damages up to \$500, while a larger organisation may increase this to \$15,000. When dealing with risk, it is always advisable to opt for the worst possible outcome of a risk occurrence to allow for the most accurate coverage and treatment.

1. Insignificant

- Little benefit, low or no financial or material gain
- Risk consequences are dealt with by routine operations

2. Minor

- Financial impact is less than \$10,000 and is not fully covered by insurance
- Single injury
- Low impact on client sensitivity
- Minimal damage to company's image and reputation
- Censure by regulators
- Minimal impact on business and strategic objectives
- Risk consequences are dealt with by routine operations

3. Moderate

- Financial impact is \$20,000–\$100,000 and is not fully covered by insurance
- Multiple injuries
- Moderate client sensitivity
- Medium damage to company's image and reputation
- Fines and penalties by regulators (for example, delay in payment to client)
- Moderate impact on business and strategic objectives

4. Major

- Financial impact is \$100,000–\$500,000 and is not fully covered by insurance
- Single death and/or multiple significant injuries
- Significant client sensitivity
- Significant damage to company's image and reputation
- Restriction of business by regulators
- Significant impact on business and strategic objectives

5. Catastrophic

- Financial impact exceeds \$500,000 and is not fully covered by insurance
- Multiple deaths
- Very high client sensitivity
- Irreparable damage to company's image and reputation
- Cessation of business due to non-compliance with regulations
- Business and strategic objectives unable to be achieved
- Significantly harms reputation, huge financial loss

Example: assessing consequences

The perceived consequence of a risk event is very much a subjective matter. Often one person may perceive a lesser consequence from a particular course of action; for example, a criminal mind may perceive the threat of a reprimand from a magistrate as a small consequence compared with the money that can be made – or satisfaction gained – from the criminal activity, whereas a law-abiding citizen would also consider the blight on their criminal record and their social standing. How would you perceive an event like a client being injured by your product?

There is, of course, the legal risk. There is also the risk to the company's reputation (or public perception of the company), which may be seen as selling 'unsaleable' or dangerous goods. It might seem easy to say 'the consequence would be minor', but determining this in dollar terms can be difficult, particularly when you are not a marketing person. Would it be only a minor consequence if one of those who had developed a negative perception happened to be your largest corporate client? What effect would this have on the company in lost sales and goodwill? We have to seek advice from marketing experts, and even conduct surveys of customers and clients to determine exactly how they would react in such a circumstance.

Practice task 12

Reflect on the risk ratings you identified in Practice task 11. Complete a consequence assessment with the added information. Consider your answers from various angles, such as 'What if the information lost or not accessible isn't urgent or that critical?' before making your assessments.

1. Your home or workplace has a catastrophic fire (being totally destroyed or severely damaged), destroying all your business software records.

2. Your car is stolen with a confidential business plan on the back seat.

3. Credit card fraud impacts on your company (or self), and empties your bank account.

4. Someone in your workplace is sick on the Monday after a football grand final, and that person is the only one at work with access to your client orders database.

3C

Evaluate and prioritise risks for treatment

To determine how severe a risk is, you need to combine the results of the likelihood of an event occurring and the severity of the consequence. You then need to determine which risks are most significant and are therefore priorities for treatment. First you need to understand the level of risk. Assign a category such as high, medium and low risk.

Here are some descriptions of typical risk categories used in business.

Extreme

- Risks that have the potential to be devastating to the organisation or project
- Require immediate action

High

- Risks assessed as likely to occur and severely affecting (either positively or negatively) specific aspects of the organisation, such as finance, property, personnel or governance
- Require immediate action

Medium

- Risks assessed as being probable and needing treatment
- Require monitoring and response procedures

Low

- Risks assessed as having a minimal likelihood of occurring and a low impact level if they do occur
- Treated with routine procedures

Determine the likelihood and level of impact

Now use an analysis matrix to provide a quick graphical presentation of the likelihood and level of impact. For this type of matrix, you need to understand the alphabetical and numerical ranking levels or system your organisation uses. The following matrix defines the different rankings given to risks and their impact. For example, if a risk has been identified as having a major impact on the organisation if it occurs and it has been identified as likely (probable) to occur, then this matrix identifies that if it does happen, there is a high level of risk that would need to be managed at a senior level.

Level of impact	A (expected)	B (probable)	C (possible)	D (improbable)	E (rare)
1. (insignificant)	Low	Low	Low	Low	Low
2. (minor)	Medium	Medium	Medium	Low	Low
3. (moderate)	High	Medium	Medium	Medium	Medium
4. (major)	Very high	High	High	Medium	Medium

Example: typical risk assessment matrix

Different organisations may use different risk assessment matrices; some may use similar but different words, have more or fewer categories, or ratings may be numerical or alphabetical. A typical risk assessment matrix is shown below.

L I K E L I H O O D	VERY LIKELY	Acceptable risk medium	Unacceptable risk high	Unacceptable risk Extreme
	LIKELY	Acceptable risk low	Acceptable risk medium	Unacceptable risk High
	UNLIKELY	Acceptable risk low	Acceptable risk low	Acceptable risk medium
		MINOR	MODERATE	MAJOR
		IMPACT		

Determine frequency of exposure to risk

There is a third variable – frequency of exposure to risk – that must be considered. The likelihood of a risk occurring is directly related to the frequency of the risk occurring. When you are evaluating the frequency of exposure to risks, there will always be questions that you will need to ask yourself.

Questions that could be posed include:

- How often do people encounter the risk?
- Has it ever happened before?
- How often has the risk occurred?
- Has the risk caused any near misses?
- Is there any level of training required to perform the activity to ensure exposure to the risk is minimised?
- Have people been adequately trained to lessen their exposure to the risk?
- Have people not been trained because the training is expensive or time consuming?

Use a grading system for exposure to risk

A grading system of possible risk exposure may use an alphabetical grade as an easily identifiable marker that helps when documenting the potential frequency of exposure to a risk. In some organisations, numerical rankings are given.

Here is an example of a grading system used to identify the frequency of exposure to risk.

Very likely

Grade: A

- Ranking: Very likely (expected) – will occur regularly
- Example of risk: personnel become ill and are off the project for a day or so
- Potential frequency of exposure: every project or activity

Likely

Grade: B

- Ranking: Likely (probable) – will occur at some stage
- Example of risk: deadlines are exceeded
- Potential frequency of exposure: a number of activities

Possible

Grade: C

- Ranking: Possible – could occur
- Example of risk: staff are injured
- Potential frequency of exposure: a couple of times in a year

Unlikely

Grade: D

- Ranking: Unlikely (unexpected) – will probably not occur
- Example of risk: property is stolen
- Potential frequency of exposure: once in five years

Rare

Grade: E

- Ranking: Rare – may occur but in limited situations
- Example of risk: a human-made disaster
- Potential frequency of exposure: once in 10 years

Maintain currency of assessments of exposure

Remember that circumstances can change and your initial assessment of exposure to the risk must change accordingly. For example, identifying the frequency of accidents happening to members of the sales team in the past can help you determine how often accidents might happen in the future. However, a number of changes may have an impact on the sales team's frequency of exposure to accidents.

Situations in which exposure to accidents could change

- The organisation may employ more sales people in the future.
- The staff might spend more time telephoning clients instead of travelling.
- The team may widen its geographic base.
- Road conditions could worsen.
- The condition of company cars could deteriorate.

Risk evaluation and prioritising

Once your overall risk/consequence rating has been determined, you need to prioritise the risks so you can address the most severe risks first. This allows for the most resources to be applied to the greatest risks, giving you the widest range of options possible. As you work down your prioritised list, resources may become less freely available and optimal treatments may have to be substituted with affordable treatments. Combine all the analysis you have conducted so far: the risk, likelihood, level of impact and level of risk based on frequency of exposure. This gives you an idea of the level of risk you are facing (high, medium or low): a high level means immediate action.

Remember that using qualitative terms (such as likely, expected) can be subjective so it's important you continue to consult with everyone involved to ensure the risks are viewed from a similar perspective and common understanding. For example, what one person sees as high risk, another person might see as low. Some risks may not be as high or low as originally thought after you have discussed them with others.

Prioritise the risks

Once you have your list, you need to analyse it further. To prioritise, you need to use your judgment and management skills as you may need to distinguish between a risk that has a low probability of occurring but a high impact if it does, and one that has a high probability of occurring but a low impact. The outcome from this is a list of risks with an agreed priorities rating. From this list, decisions can be made about acceptable levels of tolerance for particular risks and where greater effort to control the risks needs to be focused. To ensure that you prioritise well, you need to take several things into account.

To prioritise well, take into account the:

- controls already in place
- cost consequences of managing risks or leaving them untreated (in terms of resources as well as health and safety)
- benefits and opportunities presented by the risks
- risks to be borne by stakeholders.

Example: risk evaluation

This example shows the importance of using the analysis of your likelihood/consequence rating to see what the level of risk is and whether an organisation should go ahead with an opportunity.

Risk	Likelihood	Impact	Level of risk
Team member is away for a short time.	Very likely (Expected)	Insignificant	Low
Team member goes on extended leave.	Likely (Probable)	Moderate	Medium
Team leader completes the campaign well within the time line.	Likely (Probable)	Major	High
Team member disagrees with a decision.	Possible	Insignificant	Low
Team member performs poorly.	Possible	Moderate	Medium
Team member disregards instructions.	Possible	Moderate	Medium
Team leader resigns with minimal warning.	Possible	Major	High
Team member becomes critically ill.	Possible	Catastrophic	Very high
Team member causes major injury to other members.	Rare (Improbable)	Catastrophic	High

Practice task 13

Use the example scenarios from Practice tasks 11 and 12 to prepare a likelihood/consequence matrix. In the table, rank each scenario as either low, medium, high or extreme and determine the possible outcomes.

Situation	Ranking	Possible outcome
Your home or workplace has a catastrophic fire (being totally destroyed or severely damaged), destroying all your business software records.		
Your car is stolen with a confidential business plan on the back seat.		
Credit card fraud impacts your company (or self), and empties your bank account.		
Someone in your workplace is absent on the Monday after a football grand final and that person is the only one at work with access to your client orders' database.		

Summary

1. Risk assessment and evaluation involves identifying the likelihood of a risk event occurring, and then examining the possible outcomes (consequences) of the event's occurrence.
2. Using a likelihood/consequence matrix, you can generate an overall risk rating, which can be used to prioritise treatment processes.
3. Make sure you are familiar with the systems and processes used by your organisation. Matrices, rating scales and terminology may differ between organisations.
4. You calculate the highest priority risks by analysing your data and identifying the risks that have a 'high' rating for likelihood and consequences.

Learning checkpoint 3

Analyse risks

This learning checkpoint allows you to review your skills and knowledge in analysing risks.

Part A

1. What are some strategies you should use to ensure you accurately identify rankings for risks?

2. In your own words, describe what is meant by the following terms, using examples where appropriate:

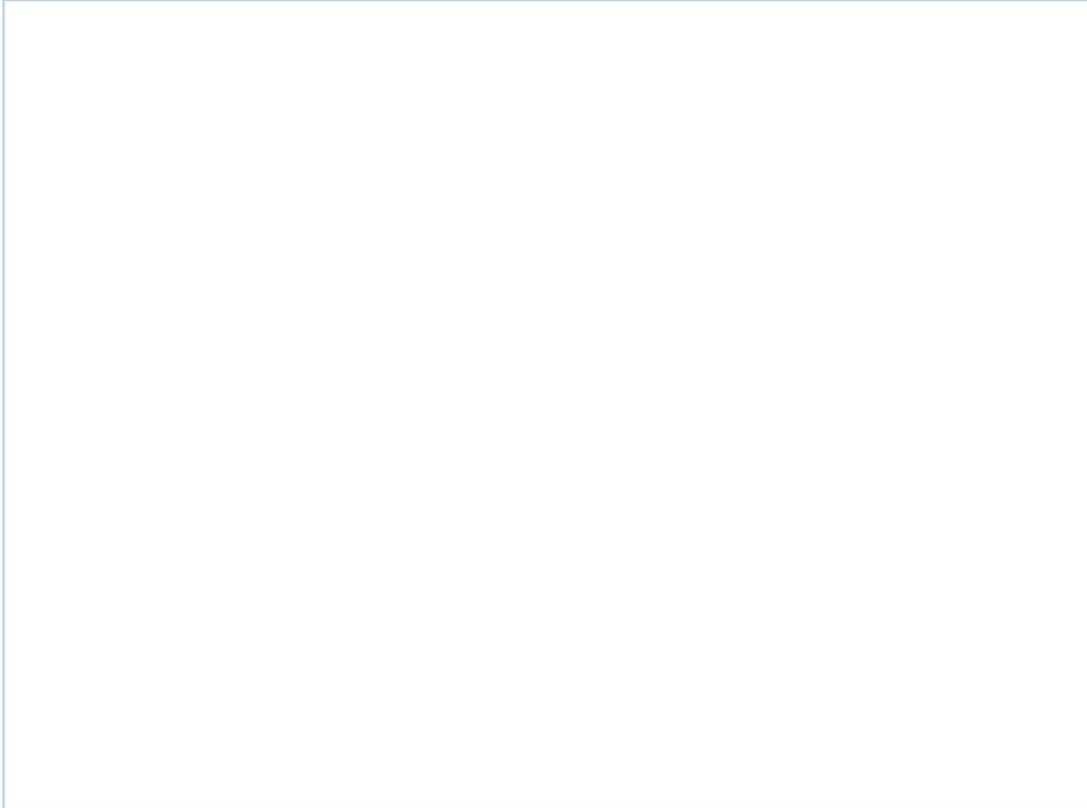
- a) Likelihood of risk

- b) Qualitative analysis

- c) A consequence scale

- d) Frequency of exposure

3. Create a table assessing different risks. Include the following:
 - Apply a risk rating scale to the likelihood of the listed risks occurring (A–E; extremely likely to rare) using appropriate matrices.
 - Assign a consequence or level of impact value (1–5; insignificant to catastrophic) to each of the risks.
 - Assign an overall risk priority for treatment (for example, high, medium, low).



Part B

Read the case study, and then complete the task that follows.

Case study

In analysing risk for an upcoming model range, risk management specialists at an American car manufacturing company were complacent about the American buyer. They knew that SUV-type trucks and pick-ups were big sellers, as were inefficient fuel-guzzling V8 sedans and sports cars. The likelihood of sales lost to more fuel-efficient vehicles from another company (even though these had just been released to the market and were already making an impact) was assessed as very low, as were the consequences of these lost sales. The company appeared to ignore any possible financial difficulties despite the prevailing economic climate, which saw consumers thinking twice before spending large sums of money. Consequently the company suffered massive losses as a result of badly misjudging the mood of the US consumer and the impact of a faltering nationwide economy.

List at least four actions the company should have undertaken before going ahead with the new model.

Topic 4

Select and implement treatments

Once the risks have been prioritised, the next step in the risk management process is selecting and applying a suitable risk treatment. This step is extremely important, as a wrongly applied or unsuitable treatment can cost your organisation time and money. Your role is to understand the range of measures that can be used to control the risk, and then assess each of these options in terms of their strengths and weaknesses. When this is done, you can prepare and implement a risk management action plan. Evaluation is the final step in the risk management cycle. You may find that some risks have been eliminated and new ones have emerged, so you need to continue the cycle of identification, analysis and treatment.

In this topic you will learn how to:

- 4A Select the most appropriate options for treating risks
- 4B Develop a risk treatment action plan
- 4C Ensure all documentation is correct and stored appropriately
- 4D Communicate, implement and monitor a risk treatment action plan
- 4E Evaluate the risk management process

4A

Select the most appropriate options for treating risks

A range of options is available to treat risks. If you determine that the level of risk is extremely high, you need to put strict measures in place to treat the risk. On the other hand, if the level of risk is negligible and you are alert to it, there is no need for action. Sometimes, you might find the expected benefits of a high-level risk outweigh possible negatives. Alternatively, the risks may be too great and you should abandon the idea altogether. Your goal is to eliminate or avoid the risk where possible, and control the outcome should the risk materialise.

Here are five options to control or manage risks.

Avoid

Avoid the risk

Can the risk be removed totally? For example, if the risks of moving into a new market at this time are too high or above management's tolerance for risk, can the organisation look for alternative markets to move into first? However, be aware of being too risk-averse and making decisions to avoid risk regardless of a positive evaluation. A decision to avoid an activity can comfortably be made if the outcome is identified as high impact/high likelihood and low gain.

Options to avoid risk include the following:

- not becoming involved in activities that lead to the possibility of the risk eventuating
- outsourcing risk-related tasks to contractors or specialist providers
- discontinuing operations that may realise the risk.

Likelihood

Change the likelihood

You can lower the likelihood of risks occurring by removing stimuli or situations likely to cause the risk to occur. This may be as simple as providing better consultation or communication channels with local government to ensure planning permissions are achieved, or delaying action until conditions become more favourable. Change the likelihood of technological breakdown by ensuring equipment is regularly serviced.

Options for changing the likelihood include:

- removing or reducing activities that may lead to the risk being triggered
- reducing exposure to the risk environment
- ensuring risk management strategies are in place
- using inspection controls and quality assurance measures
- implementing tighter control of contract conditions
- ensuring time lines are realistic.

Consequences**Change the consequences**

By understanding the potential consequences of a particular course of action, you may be able to find opportunities to allow the organisation to proceed in a different direction to achieve its goals. A contingency plan is a valuable tool for helping reduce the impact or consequence of a risk event. It means you can react quickly and calmly to anything that threatens progress and ensure disruptions are limited.

Contingency planning may include:

- establishing measures to control or minimise damage if the risk is realised, such as fraud control planning, public relations, disaster recovery planning, pricing controls
- developing administrative measures, controls, policy or procedures to provide guidance.

Share**Share the risk with a third party**

If a risk is too great to take on alone, partnerships and strategic alliances allow risks to be shared. International expansions by large companies are seldom successful unless they partner with local businesses to share risk and gain greater market understanding. Sharing the risk may also involve external investors, such as venture capitalists or insurers and underwriters, and may include joint ventures, partnering arrangements or underwriting investor participation.

Insuring against an event occurring includes all forms of insurance such as liability, indemnity, life, workers' compensation cover, third party and hedging.

Retain**Retain the risk**

Not all risk is bad, and some 'bad' risk may be at an acceptable level when the likelihood and consequences can be adequately managed within the organisation. For example, if your company specialises in moving hazardous liquids and has extensive safety, environmental, personnel and hazard handling procedures in place, you may choose to accept and retain this risk.

Consider the context

Considering the context of the activity is essential when allocating controls. When determining what measures to apply to control risks or enhance opportunities, make sure you look at the activity as a whole and see how it fits into the organisation's strategic planning. The bigger picture may influence your decision about what measures to adopt. For example, it might be wise to pursue an activity despite its potential for a negative outcome – as long as you put plans in place to control the risks. The activity might be crucial to your organisation's continuing relationship with another organisation or may be essential if your organisation is to expand into a new market or increase its profit.

Analyse the control measures

The control measure selected should be based on the resources you have, the time it takes to implement the measure and its cost. You should also identify whether you need to do a cost-benefit analysis; it may be more cost-effective not to treat the risk. It is crucial that the risk treatment complies with legal requirements and organisational and government policies, especially those regarding access and equity, ethics and accountability. These criteria will influence your decision. Be flexible and keep in mind the alternatives available to you if your first choice proves unsustainable. Seek advice from colleagues who have experienced a similar situation. Use or adapt the following questions to approach decision-making in a systematic way.

Questions you could ask yourself to decide on a control measure

- Is the treatment option feasible?
- What is the cost of implementing the control measure?
- Are there any benefits to be gained by not reducing the risk?
- What resources are needed to control the risk?
- Does the treatment mean more risks are identified or does it lead to additional benefits?
- Is the control measure sustainable or is it only a short-term fix?
- Are there rare but severe risks that need to be treated regardless of cost?

Select risk treatments

To be really sure you are choosing the right control measures, you should go back to the risks you have identified and look more closely at their causes. The control measures you implement should treat the cause, not the result of the cause. First look at all available options for each risk.

Available options are influenced by:

- the priority of the risk
- the cost and other resources available
- the timeliness required in addressing the risk
- legal implications
- sustainability of controls
- stakeholder sentiment and preferences.

The importance of insurance

Organisations share the risks they have identified with a third party (insurance providers) to provide protection where unforeseen circumstances or events occur, such as a break-in, fire, staff accident, vehicle accident, project delays, cost overruns or litigation.

Types of insurance include liability, indemnity, life, workers' compensation cover, third party and hedging. Depending on your role and responsibilities and the nature and size of the organisation, you may have several responsibilities in regard to insurance. For example, you may need to seek advice from financial or insurance experts to ensure that insurance cover is adequate and continues to be: insurance may have been appropriate at the time the risk strategy was developed but may now be inadequate.

Responsibilities involving insurance can include:

- being familiar with the types of insurance available
- identifying the type of insurance the organisation currently has and the reason for the insurance
- identifying the current insurance providers
- maintaining a database of preferred insurance providers
- inviting guest speakers, such as insurance brokers, to present to senior management on the benefits of insurance coverage
- keeping copies of insurance documents in the company's safe.

Examples of risk treatment measures

Here are several examples of risk treatment measures you may apply to specific circumstances.

Increased competition

Risk cannot be avoided and is not within the organisation's control. Minimise consequences by:

- clearly defining organisational strategy and performing it well
- continually researching competitor actions and assessing their impact
- developing contingency plans.

Declining demand for products or services

Help avoid risk by:

- continually monitoring sales performance
- conducting research into customer needs to ensure the products meet these needs to reduce the likelihood of declining demand
- continually researching alternative products to suit changing economic conditions or customer needs
- reviewing pricing model to attract increased demand.

Expenditure over budget

Risk cannot be avoided but can be reduced with control measures such as:

- regular financial analysis
- effective budget planning and reporting
- developing contingency plans
- carefully researching expected expenditure before developing budgets.

Inadequate IT system

Help avoid risk by:

- researching software requirements and developing a detailed brief before purchasing the system
- sharing the risk by engaging an expert to define requirements and select the system, including software, as part of an overall systems leasing package that allows regular updating.

High staff turnover

Risk cannot be avoided but measures to reduce turnover may include:

- conducting exit interviews and implementing staff retention programs
- interviewing existing staff to understand frustrations
- paying competitive rates and offering good conditions.

Litigation

To eliminate the risk of litigation:

- take out professional indemnity insurance (for example, for lawyers, medical practitioners)
- outsource highly technical operations to experts (for example, subcontracting work health and safety reviews)
- take out various forms of insurance (for example, vehicle insurance)
- initiate joint ventures with technical experts (for example, establishing a joint venture with a childcare organisation to provide a staff day care facility)
- take out workers' compensation cover.

Direct the treatment to the appropriate person

In addition to knowing the options available, you need to know who to direct the treatment to.

The following shows how a large retailer incorporated risk levels and management options.

<p>Minor risk</p> <p>Can be managed by administrative procedures or processes.</p>	<p>Moderate risk</p> <p>Will need specified management.</p>
<p>Major risk</p> <p>Attention by senior management required.</p>	<p>Catastrophic risk</p> <p>Requires immediate action; detailed planning required at senior levels to prepare for and capture opportunity.</p>

Example: applying risk treatments

Here is an example of the risk treatment process to control the risk of transportation delays.

Identified risk	Transportation delays in product delivery to customers.
Consequence	Damage to company reputation and subsequent loss of business.
Treatment options	You cannot totally avoid this risk but there are control measures that can be put in place.
Can we change the likelihood?	Yes – increase inventory holdings, employ or contract more delivery drivers, open more (smaller) local distribution centres.
Can we change the consequences?	Probably not. Delays in delivery, particularly where they occur frequently, give the company the reputation of being an unreliable supplier.
Can we share the risk?	Possibly. If you contract a courier company and include either performance incentives or non-delivery penalty clauses with 'delivery guarantees', you can offer customers similar guarantees or other incentives where delays materialise.
Can we retain the risk?	Probably not. Unless you have a dominant market position and can afford to lose some disgruntled customers, reputation is everything in business.

Practice task 14

Within your organisation or one that you are familiar with, find an identified liability risk with one of its lines of products that may, in rare circumstances, cause injury to a user. In dot point form, discuss each of the risk treatments and whether they should be applied to this situation.

4B

Develop a risk treatment action plan

An action plan is a clearly articulated and documented plan that defines how the risk management process will be conducted. The content of the action plan is dictated by organisational policy and the size and nature of the business. Some action plans are basic documents outlining actions to be taken, responsibilities and time lines, while others are more complex and cover a wide range of risk areas, multiple risks and control measures, and regular monitoring and review strategies. Of course, you cannot do this in isolation, and your action plan needs to be completed with input from your stakeholders and participants.

Your action plan should address the following questions for each identified risk.

What risk areas have been identified?

Categorise your plan into risk areas appropriate to your organisation such as personnel-centred, finance and market-centred.

What are the identified risks?

Define the risks in clear terms so they are easily understood.

What are the risk levels?

Define the likelihood, frequency of exposure and impact. List the risk prioritisation.

What actions are required?

Detail the treatment required, including resources and specialist personnel, and strategies for providing access to risk management processes and resources to everyone.

Who is taking responsibility?

Identify the person or group responsible for ensuring the actions are completed.

What are the time lines?

Following consultation, include a realistic and achievable time line with milestones on the way to completion.

How will you monitor the processes?

Identify how and at what point you can determine progress and completion benchmarks to ensure compliance with the action plan.

Additional information to include in the action plan

In some cases there may be other information that needs to be included in the action plan.

When developing an action plan, you may also need to include:

- Policy references
- Participants in implementation
- Documentation requirements
- Resource allocations
- Communication plan

Document the plan

Use your organisation's risk treatment template or develop your own treatment plan to suit the nature of the activity. You might use a spreadsheet format that allows you to record multiple risks, although a vertical format might be more suitable for a small-scale activity. You might use a separate sheet for each risk. Follow the plan carefully as you implement the treatment. While the plan is a valuable support tool, do not be afraid to change it if you discover a treatment is not working.



Example: documenting a risk management plan

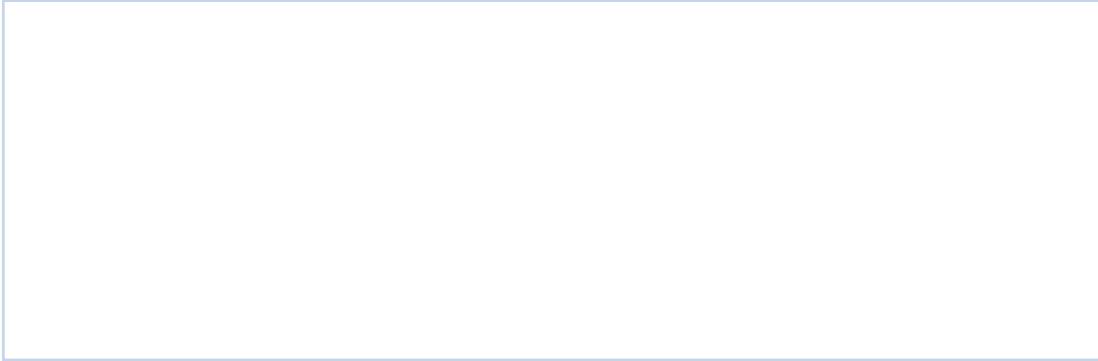
Here are two examples of risk management plans, showing how they can be formatted.

Risk	Risk level	Action	Resources	Responsible person	Review by	Review date
Delay in project completion	Major	Ensure underwriting includes project completion insurance to cover cost overruns caused by delays	Insurance cover	Financial manager	Project manager	12/08/16

The risks What can happen and how	Non-payment of accounts	
The consequences of an event happening	Consequences	Cashflow difficulties May need higher provision for doubtful debts Lower profits
	Likelihood	Possible Low \$ value of bad debtors recorded to date
Adequacy of existing controls	Adequate – debt collection policy and process in place	
Consequence rating	3 (Mod.)	
Likelihood rating	P (Possible)	
Risk rating	M (Moderate)	
Action taken/future strategies Review 3/7	Ensuring clients adhere to stated payment terms or if necessary, reviewing to improve existing payment schedules Restrict approval of client accounts Follow-up collections system in place Credit limits in place Non-payers are red flagged on system	

Practice task 15

Select an appropriate template for a risk management action plan for your organisation, unit or area. Explain the content of the chosen template and justify why you have selected this format.



4C

Ensure all documentation is correct and stored appropriately

Make sure all documentation associated with your risk management process is saved and stored appropriately. Documents may include risk audits and assessments, meeting minutes, and draft and final copies of the risk management action plan.

Associated documents that link with the risk management plan may include:

- document reviews and reports
- an asset register listing the organisation's current assets
- a blank template for a risk matrix
- the emergency evacuation plan
- a list of current work safety officers
- insurance coverage
- contracts, agreements and memoranda of understanding.

Why documentation must be current and accurate

Documentation must be retained for a number of reasons. The most obvious reason is that a risk management action plan provides senior management with a plan that identifies and prioritises all risks the organisation is exposed to. Supporting material such as meeting minutes demonstrates that the risk management process has been conducted properly and in line with the scope. In addition, check that all documentation associated with the risk management plan is current, accurate and appropriately stored; for example, insurance policies, alliance or partnership contracts, training records, purchase agreements. You may be required to revisit these documents to check that training has been provided or in a court case to show how the organisation planned and carried out its risk treatment strategies.

Documents must be current and accurate to:

- communicate risk management activities with all stakeholders, participants and employees
- facilitate ongoing process monitoring and evaluation of the risk management strategy
- provide an accountability mechanism that supports the organisation's corporate plan
- provide an audit trail for the follow-up of key actions identified in the action plan.

Retain or destroy documentation

There may also be a legal or legislative requirement to retain certain documents and records for a specified period or destroy documents for confidentiality reasons. Make sure you know the regulations and what documents are involved, especially the documents that your organisation needs to retain. Ask your manager if you are unsure.

Documents that need to be retained might include:

- risk assessments
- risk management plan
- insurance cover
- incident report forms
- litigation records
- alliances
- contracts and memoranda of understanding
- training records.

Storage options

Security of storage is crucial given you are likely to be dealing with commercially sensitive information. Make sure you are familiar with the procedures the organisation follows for document storage.

Electronic storage of documentation is the most common way to retain information. Make sure you understand the file paths and other storage implications, such as whether the folders are to be password protected. For example, your organisation may allow access to current working documents only for specific people, whereas you might store general information on the intranet. You may need to electronically scan and store written documents such as legal documents. If you receive written or printed documentation that you need to keep but cannot scan, you may need to consider other security options including lockable filing cabinets, safes or secure server storage. It is also advisable to retain valuable or important electronic documents backed up to off-site media; for example, an external server, removable/secureable hard-disk drives or single-use media such as writeable DVD or Blu-ray discs.



Example: document management systems

Brett Michaels has recently been appointed the managing director of a small delivery company. As part of his responsibilities, he has overseen the development of an updated risk management plan. Managers and staff have been informed and trained where necessary in relation to the storage of all risk management documents.

Key elements of the document management system include the following:

- The document management system includes a folder on the organisation's computer network titled Business Support. Within this folder is a Risk Management folder. Within this folder is a range of clearly named folders and files containing documents such as the company's asset register, the current risk management plan, past risk management plans, the emergency evacuation plan, a blank template for a risk audit, completed risk audits and risk assessments, a list of current and prior work safety officers, insurance coverage and a blank template for a risk matrix.
- Electronic copies are created as PDFs to avoid them being altered.
- Back-up copies are stored on an external server in the company's off-site location.
- A final copy of the current risk management plan is stored electronically in the Business Support folder as well as on the company intranet. A master copy is stored in the company's Publications Master Copies folder labelled Risk Management Plan.
- A hard copy of the risk management plan is available in the company's library.
- Electronic copies of risk management documents available only for senior staff are password protected.
- A copy of appropriate risk management documents for all staff (the risk management plan, risk audits, risk analyses) is made available on the company's intranet under Policies and Procedures.
- The version of all risk management documents is clearly indicated.
- Copies of the insurance documents are held in the company's safe.

Practice task 16

1. What document storage facilities (on/off site) do you have at your organisation?

2. What back-up and/or archive facilities are there?

3. What procedures does the organisation follow for document storage?

4D

Communicate, implement and monitor a risk treatment action plan

Implementation of the action plan involves significant communication skills. Remember, your job is to manage the process – you may not be involved in the day-to-day implementation of the control measures. Participants must be briefed on their roles to ensure they understand their required duties and the part they play in the overall success or otherwise of the risk management strategy. There are five key steps to follow when implementing an action plan.

Develop a communications plan to provide relevant information to target audiences. This is particularly relevant to key personnel who are performing tasks associated with the action plan.

Promote the plan to raise awareness among all personnel in the organisation through various media. Open channels of feedback to allow concerns to be raised, providing ownership and inclusivity to all staff.

Motivate participants by keeping them aware of the progress of the risk management processes. Regularly meet with participants in the process to ensure they are motivated and on schedule. Reward success.

Monitor and evaluate the plan performance for achieving milestones and to provide insight into potential shortcomings.

Modify the plan if or when the need arises. If the risks change or as new risks emerge, allow the plan to be flexible enough to incorporate change effectively.

Implement the plan

No risk management strategy or plan is workable unless all stakeholders and participants are aware of what is required to implement it and make it work. An important aspect of your role is to communicate information about the implementation of the plan and designated responsibilities. In many cases you are not the person implementing aspects of the plan.

Effective communication helps everyone feel they are part of the process. A communication plan outlines how you will let everyone know about the risk management plan and their role and responsibilities. It should also describe how to obtain their commitment, identify additional risks and concerns throughout the implementation process, inform relevant personnel about changes to work practices and gather feedback. Each target audience requires a key message.

When implementing a plan, you need to emphasise the following questions:

- What is risk management and what is the organisation's strategy?
- How is it being implemented, and what is my role in its implementation?
- What benefits should I expect to see?
- How can I actively participate to ensure successful implementation?

Communication strategies

Your communication strategies depend on your target audience. Those responsible for managing the plan and ensuring it is accurate and comprehensive may need to meet regularly. Senior management may need specific meetings at which the draft action plan is presented, opportunities are provided for feedback where appropriate, and authorisation for the plan is given. General dissemination to staff may involve presentations to ensure they understand the plan and their role.

Suggested communication strategies
Risk management committee or team: regular, direct progress meetings
Senior management, financiers, shareholders, insurers: presentations; website; targeted briefings; corporate plans
Staff: workshops; information sessions; staff information booklets; newsletters; flyers or posters; intranet articles and periodicals.

Overcome difficulties when implementing the plan

You may encounter a number of difficulties when implementing a risk management plan. Make sure you have contingency plans in place to eliminate or reduce the impact of the difficulties. For example, if staff have misunderstood their responsibilities, you will need to provide additional information at a meeting – by way of a presentation or with hand-outs written in plain English or in a community language.

Here are some examples of solutions that could be employed to overcome implementation difficulties.

Possible solutions to difficulties

- 1 Ensure there are sufficient financial resources available to execute the plan in case of expenses for recruiting additional staff, changes to budgets or higher-than-expected costs.
- 2 Ensure that all staff understand the risk treatment processes by preparing a list of questions to ask and observing them to confirm their understanding.

3

Ensure the action plan provides strategies for managing changes to organisational structure in case there are changes to key personnel (management changes, new stakeholders or staff changes).

4

Ensure there is sufficient insurance cover in the case of unexpected events and emergencies.

5

Provide a variety of risk options in case the desired one is not successful.

Monitor the plan

Monitoring the action plan is an ongoing process that ensures you manage the control measures effectively. You need to check controls are reducing or managing the identified risks or, alternatively, increasing the identified opportunities. This is essential because risks by their very nature are not static – circumstances can change quickly and render the treatment you have chosen ineffective.

When monitoring an action plan, you might need to:

- revise an inappropriate option
- recognise other risks that can arise that need to be treated
- understand that risk treatment priorities might change.

Benefits of regular monitoring

Regular monitoring helps you determine whether the impact and likelihood have been reduced, the risk is occurring less often and the treatment is cost-effective.

Include all stakeholders, staff and other relevant personnel in your monitoring, as they are able to report their findings from a perspective that may be very different to yours. Make sure you document any findings you make as you monitor the process. New treatments identified from monitoring results should be included in the action plan. An inflexible, stagnant action plan is unable to meet the changing needs of the organisation.



Monitoring methods

Monitoring to check on the success of control measures needs to be done on a regular basis. The following are common methods used to monitor and check control measures.

Methods to monitor the success of control measures can include:

- self-assessments
- observation and physical inspections
- customer feedback
- audits and reassessment of risk
- review of policies, strategies and documentation.

Use established criteria

You might use a set of established criteria to provide a concrete measure of success against which you can judge the effectiveness of the treatments. In this way you can compare actual performance with the desired outcome. When establishing criteria around the development of risk treatments, it is essential that you understand how the success of risk controls will be measured.

Established criteria may include:

- cost
- reduction in impact
- reduction in likelihood
- reduction in occurrence.

Use a set of questions

For a thorough, consistent monitoring process, you need to go back to your risk identification chart, your risk analysis, the risk register and the risk treatment plan. Here are key questions to ask yourself and others for regularly monitoring the risk management action plan.

Key monitoring questions
<ul style="list-style-type: none">• Are the risk treatments effective in minimising the risks?• Are the risk treatments cost-effective and time-efficient in minimising the risks?• Do the performance outcomes address the key elements for risk treatment?• Are the assumptions made about the organisation's environment, technology and resources still valid?• Are the management and financial controls adequate?• Do the risk treatments comply with legal requirements and government policies such as accountability, ethics, access and equity?• How can improvements be made?

Example: communicating the risk management plan

Here is an example of how an experienced manager communicated the risk management plan to workers.

'At all stages of the risk management process, we communicated our progress to staff so that by the time we wrote the risk treatment action plan, everyone understood the potential risks and had contributed to suggestions for treating the risks.'

'When the risk treatment action plan was completed, we called a staff meeting and provided them with a copy of the proposed plan. Absent and deployed members were emailed a copy of the plan for comment.'

'Feedback was accepted from meeting attendees, and some new ideas for risk treatments were provided to the management team.'

'Follow-up meetings were held with both internal and external stakeholders to finalise the plan. Support material for the plan included notices that we displayed around the organisation and an article on our intranet, which aimed to assist with the implementation of the plan.'



Practice task 17

1. Research different communication techniques by talking to experienced practitioners. Are there any other media or methods that could be used to communicate your risk management process to an audience? What are they?

2. Ask for some tips for communicating risk management processes. List them in dot-point form.

4E

Evaluate the risk management process

While regular monitoring is essential for ensuring control measures are being implemented effectively, there also needs to be a formal review process that is implemented on a regular basis to determine the effectiveness of the risk management process itself. An evaluation allows you to learn lessons from the process: what worked well, what could have been done better, and what didn't work at all. Most organisations review their risk management strategies via an annual cycle so they can be sure their strategic plans meet the current environment but allow for ageing risks and future potential risks to be identified.



What is evaluation?

Evaluation is the systematic determination of value or performance against set criteria, benchmarks or standards. Evaluation offers you the opportunity to review performance and constantly improve your organisation's overall approach within systems, processes and procedures.

There are three main approaches to evaluation: goals-based, process-based and outcomes-based. The ideal methodology is the one that best suits your needs and desired outcomes.

These three types of evaluation offer different perspectives and are designed for different purposes. It is suggested that where your goals are to reduce loss or reduce risk, you use the goals-based method, with the scope to also use elements from process- and outcomes-based evaluation.

Goals-based evaluation

Goal-based evaluation determines the extent to which the program meets pre-set goals or objectives. In a risk management process, these goals are defined in the preparation of the project or process scope.

Questions to ask when designing an evaluation

- How were the program goals and objectives derived?
- Was the process effective, and were the goals SMART?
- What is the status of the organisation's progress toward achieving the goals?
- Were the goals achieved according to the time lines specified in the program implementation or operations plan? If not, why?
- Did personnel have adequate resources (time allocation, money, equipment, facilities, training, etc.) to achieve the goals?
- How should priorities be changed to put more focus on achieving the goals?
- How should time lines be changed? Be careful about making these changes. Know why efforts are behind schedule before time lines are changed.
- Should goals be changed? Should any goals be added or removed? Why? Understand why efforts are not achieving the goals before changing them.
- How should goals be set and defined in the future?

Process-based evaluations

Process-based evaluations provide an understanding of how a program works and how it produces its results. Process evaluation can be applied to longstanding or ongoing programs or processes. Process evaluation can address a number of questions relating to the subject program, project or process. The questions you develop depend on what you specifically want to know about the performance of the process.

Here are some examples of questions to ask yourself when designing process-based evaluation.

Key questions for process-based evaluation

- On what basis do staff and/or stakeholders decide what is included in the program?
- What is required of staff/stakeholders in order to implement the risk management program?
- How are employees trained or informed about the program?
- What input is required of stakeholders?
- What are the general processes customers or clients go through, with the product or program?
- What do stakeholders consider to be strengths of the program? What typical complaints do they have?
- What do participants and staff recommend to improve the risk management program/processes?
- On what basis do employees and/or the stakeholders decide the risk management program/processes are no longer needed?

Outcomes-based evaluation

An outcomes-based evaluation allows you to see whether the program or process is achieving the outcome required by management or directors. The general steps to accomplish an outcomes-based evaluation are as follows.

General steps to accomplish an outcomes-based evaluation

- 1** Identify the major outcomes of the program. Ask yourself, 'What processes are we doing now?' and then for each activity, ask 'Why are we doing that?' The answer to this 'Why?' question is usually an outcome.
- 2** Choose the outcomes you want to examine and prioritise. If time and resources are limited, pick the top two to four most important outcomes to examine first.
- 3** Specify observable measures, or indicators, for each outcome to help you evaluate whether you are achieving the required performance.
- 4** Specify a target level or goal of achievements; that is, how often the risk management program succeeded based on the criteria identified in step 3.
- 5** Identify what information is needed to show these indicators, such as statistical records of decreasing downtime or losses, increased productivity or higher profit.
- 6** Decide how information can be efficiently and realistically gathered: program documentation, observation of program personnel and stakeholders in the program, questionnaires and interviews about clients' perceived benefits from the program, case studies of program failures and successes.
- 7** Analyse and report the findings.

Methods for conducting an evaluation

How complete and thorough your evaluation is depends on the quality of the information you gather. Here are six data collection methods. They are not exclusive and it is strongly recommended that a combination of methods is used to ensure data validity and depth.

Questionnaires, surveys and checklists

Purpose

Quickly and/or easily get lots of information from people in a non-threatening way

Advantage

- Can be completed anonymously (allows for more candid responses)
- Inexpensive to administer
- Easy to compare and analyse
- Can gather large samples
- Can get answers to lots of questions at once

Disadvantages

- Might not get carefully considered feedback
- Wording can bias clients' responses
- Impersonal
- May need sampling expert
- Doesn't get the full story (cannot capture emotion, peripheral events, etc.)

Interviews

Purpose

Fully understand someone's impressions or experiences, or learn more about their answers to questionnaires

Advantages

- Can get full range and depth of information
- Develops relationship with stakeholders and relevant parties
- Can be flexible to meet interviewees' needs

Disadvantages

- Can take a great deal of time
- Can be hard to analyse and compare even similar answers
- Can be costly (due to time)
- Interviewer can bias responses with personal opinions or perspectives

Documentation review

Purpose

Understanding how a program operates without interrupting the processes by reviewing finances, correspondence, outputs/outcomes, memos and minutes.

Advantages

- Get comprehensive current and historical information
- Doesn't interrupt process
- Information already exists
- Statistical data means few biases occur

Disadvantages

- Often takes a lot of time
- Information may be incomplete
- Need to be clear about what you are looking for
- Not a flexible means to get data; data is restricted to what already exists

Observation

Purpose

Gathers information about how processes work within a program

Advantages

- Can view steps of a process as they are actually occurring
- Can adapt to events as they occur

Disadvantages

- Can be difficult to interpret seen (and unseen) behaviours
- Can be complex to categorise observations
- Observers can unwittingly influence behaviours of program participants
- Can be expensive (time)

Focus group

Purpose

Explore a topic in depth through group discussion; for example, about reactions to an experience or suggestion, understanding common complaints, etc.

Advantages

- Quickly and reliably get common impressions
- Can be an efficient way to get a wide range and depth of information in a short time
- Can convey key information about programs

Disadvantages

- Can be hard to analyse responses
- Need a good facilitator for safety and closure
- May be difficult to schedule 6 to 8 people together

Case study

Purpose

Understand or depict experiences in a program and conduct comprehensive examination through cross-comparison of cases.

Advantages

- Fully depicts experience in program input, process and results (outcomes)
- An effective way to portray processes to external stakeholders

Disadvantages

- Usually quite time-consuming to collect, organise and describe
- Represents depth of information, rather than breadth

Timeliness

Evaluation cannot be a drawn-out process, as findings of an evaluation should be integrated back into the process as a form of ‘fine-tuning’. Typically, a time line must be established before conducting the evaluation. Maintaining an evaluation schedule can be difficult, particularly where respondents to questionnaires delay return or simply don’t complete them. However, this problem will always exist. The onus is on the evaluator to encourage timely returns and chase up slow respondents. To assist your planning, Gantt charts are a common time line development tool that can be produced in any spreadsheet software. For more information on producing Gantt charts, an internet search can provide many examples as well as tips and hints for use.

Reporting

An evaluation report is a standard report format document that includes data results, draws conclusions on performance and makes recommendations. As a minimum, an evaluation report should include the key items shown here.

Purpose

What was the purpose of the evaluation?

Target

What was being evaluated?

Process

What were the steps in the evaluation process?

Findings

What data was gathered and what was found?

Interpretation

What do the findings mean? What issues are emerging?

Lessons learned

What has been learned from events as they unfolded?

Recommendations

What should happen now?

Example: the value of regular evaluation

During ongoing monitoring and evaluation of a recently implemented risk management process at a large, exchange-listed furniture manufacturer and retailer, they found that a new risk had emerged since implementation of the plan. This was the unexpected entry into the local market of an interstate competitor that had previously indicated they had no intention of expanding. Announcement of the planned expansion caused investor uncertainty and a subsequent loss in the share price, and the company's institutional investors were concerned.

Luckily for the company, its risk management implementation plan included sufficient allowances for such unforeseen risks to be adequately assessed and included in an update, acknowledging that such occurrences, no matter how unlikely, can still materialise. Sufficient resources were kept in reserve to allow the board of the company to develop and integrate new risk management processes within the existing action plan. Although some losses occurred, the company retained a dominant market share in its operating areas, and continues to return shareholder value.



Practice task 18

1. Obtain a copy of a risk treatment plan in process within your organisation, or one that you are familiar with. If you were monitoring the plan, what would you be checking for?

2. Evaluation can be defined as a systematic assessment of worth or merit. Explain what you would be checking for using goals-based, process-based and outcomes-based evaluation methods.

Summary

1. Select the appropriate risk treatment, considering priorities first and also your resources. You can choose to remove the risk, reduce the risk/consequence, share the risk or accept it.
2. An action plan establishes the responsibilities and time lines for implementing the risk treatment measures.
3. Communicating the process via the most appropriate means to stakeholders and participants is essential. This might involve presentations, meetings, flyers, newsletters, information sessions or placing information on the intranet.
4. During every step of the process you must maintain documentation for compliance, governance, accountability, auditing and to assist future risk managers.
5. Implementing an action plan involves communication, getting people enthusiastic about the task and monitoring the performance of the plan, so that it can be modified when needed.
6. Evaluation allows you to refine and improve on the risk management process by evaluating what worked well, what could have been done better and what didn't work at all. You can use different evaluation methods such as goals-, process- or outcomes-based techniques.

Learning checkpoint 4 Select and implement treatments

This learning checkpoint allows you to review your skills and knowledge in selecting and implementing treatments.

Part A

1. Why is it necessary to select and apply appropriate risk treatments to identified risks?

2. Research what type/s of risk reduction or sharing strategies may be applied or are available if you are looking to address the risk of litigation from the actions or inactions of you or your staff.

3. Give three reasons why you need to ensure that any documentation associated with risk management is accurate and stored appropriately.

4. List the information you would include in a risk management action plan and explain the purpose of this information.

5. Explain the role a manager plays in monitoring and evaluating their risk management action plan and storing the information.

6. In one or two sentences, describe why you need to maintain communication with stakeholders and/or participants throughout the risk management process.

7. Describe two contingency plans you might have in place for difficulties that might arise when implementing a risk management plan.

Part B

Read the case study, and then complete the tasks that follow.

Case study

The company

PolyVeya Pty Ltd is a publically listed Queensland-based plastic forming company that makes components for the automotive industry. It is well established in Coolangatta and has just finished upgrading to a new warehouse and forming machinery that will allow it to take on extra capacity. It has 250 staff.

The situation

The Board of PolyVeya Pty Ltd has approached several large boat builders with the intention of expanding into marine plastics, a relatively mature sector. The approaches are well received, with some reservations regarding the company's experience in the salty, high-UV marine environment. PolyVeya is well financed (underwritten) but is carrying some debt and has minimal cash reserves. There is a quality leadership team in place, but it has little experience with marine plastics.

The risks

The risk management team at PolyVeya Pty Ltd conducted a risk assessment and found several areas of risk that could affect its move into the new market. These include:

- Technology risk – although they have upgraded their plant, is it suited to marine plastics?
- Product risk – will the products from the new player be embraced by the market?
- Financial risk – with minimal reserves and some debt from the upgrades, if they are unable to produce a competitive product quickly, they may face financial difficulties.
- Reputation risk – what effect will the move to diversify have on their brand?
- Commercial/market risk – given they are moving into a saturated market, how will they perform?
- Management risk – does management have sufficient experience to be able to adjust should the marine sector reject their new product?

1. List five different types of risk treatment options available to the business and explain how they may use these options to provide risk coverage for the identified risks.

2. In the table below, list the types of risks for PolyVeya Pty Ltd and appropriate risk treatments for each risk. Provide a brief explanation justifying your decision for one of the treatments you have suggested for each of the risks.

Risk	Treatment measures	Justification

continued ...

... continued

Risk	Treatment measures	Justification

3. As you prepare a risk treatment action plan, what do you need to consider to ensure your plan is effective?

4. Prepare a draft risk treatment action plan for the CEO of PolyVeya Pty Ltd using this table.

Risk	Risk level	Action	Resources	Responsible person	Review by	Review date

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... continued

Risk	Risk level	Action	Resources	Responsible person	Review by	Review date