



InnerThink

“Best” Practices for Risk Management



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Objective: To understand what Risk Management is, why it is important, what is a Best Practice, what it constitutes, and then begin to apply Risk Management practices to what we deliver as part of our DNA.

Best Practice Defined

Definition

1. A [method](#) or [technique](#) that has consistently shown [results](#) superior to those achieved with other [means](#), and that is used as a [benchmark](#). See also [best in class](#) and [leading practice](#). Source: BusinessDictionary.com
2. Commercial or professional procedures that are accepted or prescribed as being correct or most effective. Source: Oxford Dictionaries.
3. An optimal way currently recognized by industry to achieve a stated goal or objective. Source: OPM3® Overview, PMI®, Page 9 (Organizational Project Maturity model)

Note: A “Best Practice” can mean something different from organization to organization, business unit to business unit, department to department, and from situation to situation. The key is to develop a mindset which then creates the baseline for a solid practice inclusive of supporting processes. No one practice is necessarily best for every organization as situations change, however, there are foundational components that are consistent regardless of complexity, or governance structures.

For example, unless you “plan” for something, you will not know what your end goal is, nor will there be alignment on what success means. Therefore the process of planning is considered a good practice. How deep and wide you go, or how many layers of formality are applied, or what format is applied will vary.

Overview

In order for an initiative to succeed the organization needs to understand, track, and manage all Issues and Risks proactively. At the outset an initiative that assesses all 'possible' risks up front is in a far better position to manage risks proactively.

In order for an initiative to commence it should have a line of site (plan) on how to identify and respond to any risk, as well as, clear ownership and oversight.

Risks need to account for impact if realized, scenarios that could create a risk, and steps to mitigate the risk prior to being realized, or worst case, as it is being realized. Additionally, each risk should be assessed in terms of the probability that it will be realized.

In the same manner issues, once a risk is realized, need to have clear ownership and actions.

What is Risk Management?

Definitions

1. The identification, [analysis](#), [assessment](#), [control](#), and [avoidance](#), minimization, or elimination of unacceptable [risks](#). An [organization](#) may use [risk assumption](#), [risk avoidance](#), [risk retention](#), [risk transfer](#), or any other strategy (or [combination](#) of [strategies](#)) in proper [management](#) of future [events](#). Source: BusinessDictionary.com
2. The processes of conducting risk management planning, identification, analysis, response planning, and monitoring and control on a project. The objectives of Project Risk Management are to increase the probability and impact of positive events, and decrease the probability and impact of negative events in the project. Source: PMBOK

** A Risk is an uncertain event or condition that, if it occurs, has a positive or negative effect on the projects objectives

Purpose

The purpose of Risk Management is to increase the probability and impact of positive events, and decrease the probability and impact of negative events. What is important to note is that projects inherently create uncertainty as they are all about delivering 'Change'.

Benefits

- Better basis for strategy setting
- Better management of unplanned threats and opportunities
- Improved service delivery
- Greater competitive advantage
- Less time spent fire fighting and fewer unwelcome surprises
- Increased likelihood of 'change' initiatives being achieved as planned
- Closer internal focus on doing the right things properly
- More efficient use of resources
- Reduced waste and fraud, and better value for money thus increasing ability to meet ROI targets
- Improved innovation
- Embedded risk based decision making
- Better management of contingent and maintenance activities.

Note: Risk management needs to permeate the organization in order to avoid risk, be effective, but also enhance reputation and yield a competitive advantage!

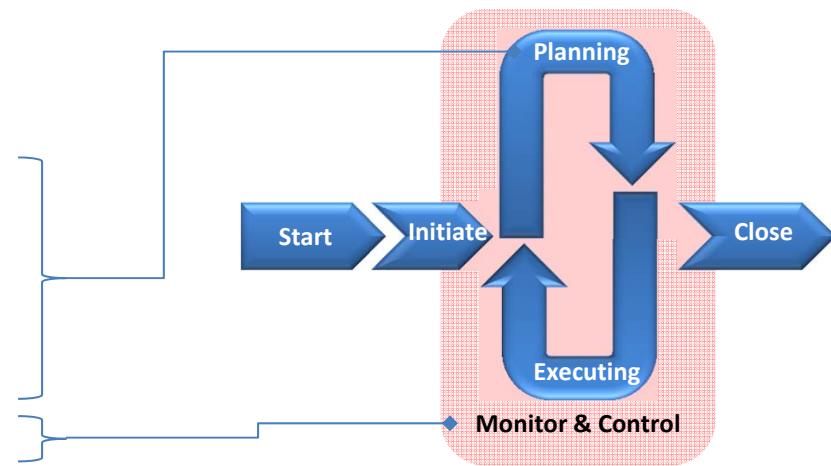
Elements of a Risk Management Practice

Principles

- Speak the same language; Common definitions of risk for both Threats & Opportunities
- Use a common risk framework and standards to manage risk
- Define risk management roles and responsibilities
- Advocate organization wide, cross functional, risk management
- Embrace transparency
- Employ senior, executive, level accountability from driving risk management
- Hold people accountable for managing risk
- Demonstrate that risks are identified and managed

The Process

- Plan Risk Management
- Identify Risks
- Perform qualitative , and quantitative, risk analysis
- Plan risk responses
- Monitor and control risks



Approach

- Employ solid governance – internal controls and high ethical standards
- Employ a Risk Framework – setting the standards, procedures, and process for risk management
- Employ business principles - applying the values of the organization to all actions and behavior

Industry Practices

What is Common among Risk Orientated organizations is the advocacy and employment of:

- Planning for Risk Management
- Identifying Risks
- Conducting:
 - Qualitative Analysis: Examination of non-measurable data such as a firm's reputation, a 'brand' image, or a customer's feelings about a product.
 - Quantitative Analysis: Examination of measurable and verifiable data such as earnings, revenue, wages, market share, etc.
- Planning the response

What may vary are the Risk Frameworks used, risk thresholds, and the level or rigor applied. Also refer to Appendix D for example practice.

Takeaway

1. Always Plan for Risk (Perceived or Real)

- Create a risk plan / strategy. It may be stand-alone or bundled with other artifacts such as a Charter.
- Identify and log risks:
 - Look back over history (prior initiatives), review the results
 - Look forward (changing conditions internally & externally)
 - Look at alternative “opportunities”

2. Assess risks from start to end; from Green-lighting (High Level), Initiation (Detailed), and through-out the lifecycle of the project

- Watch trends
- Determine what can be accepted and what can not to prioritize and set the right level of oversight in place
- Define impact (Opportunity cost, direct cost), probability, mitigating actions, ownership, dependencies



3. Manage the Risks

- Build mind set into the project, cover as part of any kick-off
- Watch trends, employ periodic proactive check-points
- Execute controls to avoid negative risk
- Monitor and execute mitigations as conditions change
- Be transparent and report High Probability risks that need support or attention
- Include high probability, high impact risks, as part of phase gate reviews; make sure that ALL partners are aligned and prepared
- Archive all risk artifacts within the Project Repository

Keys to Success

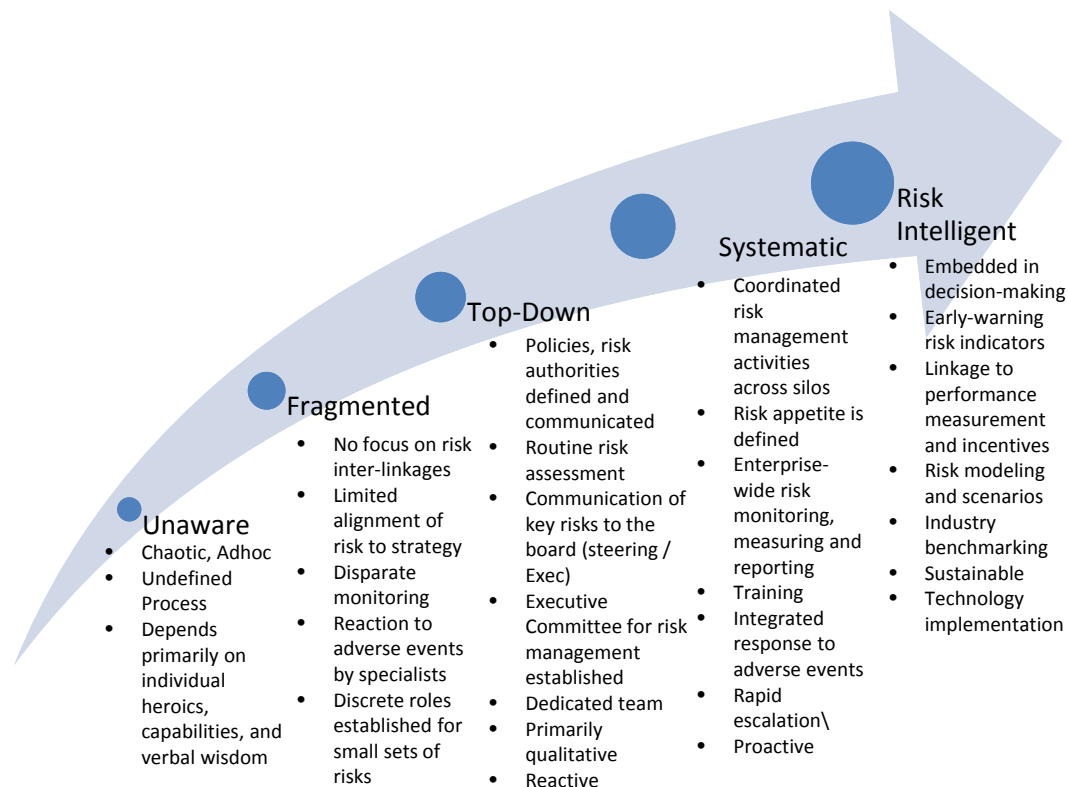
Keys to Success, or, Challenges to address for Success

- Have enough resources to focus on Risks (people, hardware, tools)
- Have the right collaboration framework to share artifacts and hand-off between multiple geographic regions
- Assess early on, iterate, don't wait for a one-time formal risk review cycle. Act early on and minimize opportunity costs and lost time
- Leverage insight from multiple subject matter experts
- Employ a nimble, flexible, process.
- Employ consistent tools, process, and disciplines
- Have the right 'decision makers' engaged to address desired outcomes
- Have executive support to champion discipline

Appendix A – The Maturity Curve

Where are You?

The following illustrates the maturity levels of testing within an organization, where Global IT currently sits, and our desired goals



Source: Deloitte

Appendix B - Resources

Resources:

- ** Pm-primer ([Click Here](#))
- PM Notebook ([Click Here](#))
- Best Management Practice ([Click Here](#), or [Here](#))
- Booz & Company: Bringing Back Best Practice in Risk Management ([Click Here](#))
- Types of Risk Management ([Click Here](#))
- IRMI ([Click Here](#))
- Deloitte ([Click Here](#))
- NASA ([Click Here](#))
- Abudi ([Click Here](#))

Additional 'Risk' Context (PMBOK):

A 'Threat' is a situation or condition that is unfavorable to the project and may be:

- A negative circumstance or set of events
- A Risk with a negative impact
- A possibility for negative changes

An 'Opportunity' is a situation or condition that is favorable to the project and may be:

- A positive circumstance or set of events
- A Risk with a positive impact
- A possibility for positive changes

Uncertainty is a lack of knowledge about an event that reduces confidence in conclusions drawn from the data.

Appendix C – Types of Risks

Internal & External Types, or Categories, of Risks:

- Customer Satisfaction
- Quality
- Performance
- Supplier
- Resistance to Change
- Regulatory
- Organizational
- Reputational
- Market
- Foreign-exchange
- Financing
- Technology
- Cost of Capital
- Changing priorities and conditions
- In-effective delivery governance
- Subject Matter Expertise
- Integration conflicts
- Business Partners (Pace, over-reliance on 3rd party, engagement)
- Culture / Language
- SOX

Appendix D – Industry Practice Example

Example of a ‘Best Practice’ as prescribed by Booz&Co.

Best Practices in Risk Management Governance

	1st Line of Defense:	2nd Line of Defense:	3rd Line of Defense:
	Top Management and Front Office	Risk Management Function	Audit
Best Practice	<ul style="list-style-type: none"> Promote a strong risk culture and sustainable risk-return thinking Portfolio optimization on the macro and micro level Promote a strong culture of adhering to limits and managing risk exposure Ongoing monitoring of positions and inherent risks 	<ul style="list-style-type: none"> Combination of watchdog and trusted advisor; police limits with “teeth” Understand how the business makes money—and actively challenge initiatives if appropriate Top talent with business experience engaging with front office as equals Risk management separate from risk control Overarching “risk oversight unit” across all risk types Intraday availability for data and positions; comprehensive report at T+1 6 a.m. 	<ul style="list-style-type: none"> Good understanding of capital markets, the business type, and risk management Top talent within audit—to challenge the front office and risk management function Independent oversight function—with enforcement ability (e.g., immediate fulfilment of findings) Ability to link business and risk with process and IT know-how

Appendix C – Templates

Simple Risk Plan Template

[Click Here](#)



Microsoft Word
Document

Risk Register / Log Template

[Click Here](#)



Microsoft Excel
Worksheet