AN INTRODUCTION TO THE PRINCIPLES of MANAGEMENT OF RISK (MoR)

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This is introduction paper on the Principles of MoR (Management of Risk) Framework. This paper explains the eight principles of MoR. MoR is a principles-based framework. These eight principles form a coherent whole to ensure successful risk management.

PRINCIPLE 1: ALIGN WITH OBJECTIVES

Risk Management of an organization should always align with the enterprise objectives of the organization. Risk management practice of an organization is focussed only on the risks that can impact the achievement of the objectives. This means that the organization should understand the objectives and design a risk strategy that can maximise opportunities and minimize threats.

Example: If the organizations objective is to become the biggest mobile telecom provider in India then the amount of risk that the organization is willing to take should be aligned with this objective. In other words, the organization should understand their risk capacity, which is the maximum amount of risk that they can bear, these risks are linked to reputation, capital and assets. So, for an organization that wants to become the biggest telecom operator in India they should identify suitable risks and ensure that these are prioritised for action.

PRINCIPLE 2: FITS THE CONTEXT

Current context of the organization should be understood clearly. This includes external context such as industry sector, markets, locations, technologies used, and regulatory, statutory and legal requirements. Internal context includes formal and informal structures, stakeholders and relationships and processes used. The organizations goals and objectives, and the company's level of control over its business risks should also be understood. The organization activities and its complexity should also be understood. These internal and external factors will influence the risk capacity and risk appetite which may result in organization going for different risk strategies depending on different situations.

The context of the organization will change. Aligning risk management to fit the context is going to be a dynamic process.

If the organizations external context such as regulatory requirements is influence is high, then the risk management approach and practice that is carried out in the organization is significantly serious and the risk capacity also changes.

PRINCIPLE 3: ENGAGES STAKEHOLDERS

Stakeholders are both external and internal to the organization. These stakeholders have different perceptions and views about risks, which should be understood. Engaging the stakeholders at all levels and using proper communication mechanism is important to understand their view about risk and how it poses risk to organizations objectives. Every stakeholder should be involved which ensures that all possible risks are identified, and adequate support is garnered from them.

Risk Management should understand the intentions of external and internal stakeholders that can either facilitate or hinder the achievement of objectives.

Process of identification of risks is well taken care if all the stakeholders are identified and engaged from the beginning.

PRINCIPLE 4: PROVIDES CLEAR GUIDANCE

The risk management practices used in the organization should be clear and make sure that all the stakeholders in the organization understand the risk management process. These practices should be consistent and standardised across all functions and units of the organization.

The practices used by different functions and units should be standardised and linkages should be good enough to join all risk practices across the organization and avoid disconnect with in the organization.

The consistent approach should also ensure that risk management can be implemented from all perspectives; strategic, programme, project and operational.

PRINCIPLE 5: INFORMS DECISION MAKING

This principle advocates that Risk Management should enable decision making by providing information about risks, opportunities and the different courses of action to make correct decisions.

Defining clear roles and responsibilities for risk and for escalation is a fundamental way of ensuring that information flows effectively, and decisions are taken on time and effectively. Establishing risk thresholds to each organizational objective is one way of achieving that information about risks flows and decisions taken on time. Tolerance is a threshold level of risk that if exceeded will be escalated to the next management level, and a decision is taken at that level.

These tolerances are the appetite for risk for that activity and decision about how to respond to risk is taken after escalation. Early warning indicators (EWI) is another way of informing about risk to the next level. An example, if an organization has a objective of not having more than 10 incorrect login attempts for a particular application, then of these incorrect attempts exceed by 5 continuously for 2 months then it would qualify as EWI.

This principle ensures that decisions are taken at the right time, considering the risk, its impact on objectives.

PRINCIPLE 6: FACILITATES CONTINUAL IMPROVEMENT

Past data about risks should be used for improvement. Data about risks that were identified previously, and their assessment and control can be used to take decisions on new risks. Learning from past experience is very useful.

MoR health check is an internal control system that helps in providing information for learning., Health check is a system which checks for areas for improvement. Another way of improving is by using the Risk Maturity Model. Gaps can be identified by using maturity model and these gaps can highlight the improvements which can then be prioritized.

Continuous improvement is mandatory to ensure that the organization does not waste its resources and does not make the same mistake again.

PRINCIPLE 7: CREATES A SUPPORTIVE CULTURE

Building a culture for risk management is important for its success. Management should build a culture where risks management is institutionalized in the organizations processes. Senior management should also demonstrate through policies that risk management is important for the organization to achieve objectives. Adequate training is also important to encourage and build the right culture that is conducive for people to follow risk management practices. A reward and recognition practice as an encouragement is good for building a culture.

PRINCIPLE 8: ACHIEVES MEASURABLE VALUE

Every process should be measurable. Risk Management should be able to demonstrate value to the organization. Senior Management should continuously monitor performance of risk management processes, because unidentified risks poses danger to the organization and may hinder the achievement of objectives.

Implementing risk management is an investment, and the organization should be able to know the returns from this investment. A measurement framework should be in place to understand the performance delivered by risk management. Performance of risk management can be measured from expectations such as: Reduce wastage, increased client confidence, adherence to regulatory requirements. Performance can also be designed to track the amount of risk reduced and exposure of the organization to the overall risk.

References:

Management of Risk: Guidance for Practitioners, The Stationery Office, UK.