The Principles of Risk Management

By Simon Buehring

Every project manager and business leader needs to be aware of the practices and principles of effective risk management. Understanding how to identify and treat risks to an organisation, a programme or a project can save unnecessary difficulties later on, and will prepare managers and team members for any unavoidable incidences or issues.

The OGC M_o_R (Management of Risk) framework identifies twelve principles, which are intended "not ... to be prescriptive but [to] provide supportive guidance to enable organisations to develop their own policies, processes, strategies and plan."

Organisational Context

A fundamental principle of all generic management methods, including PRINCE2 and MSP as well as M_o_R, is that all organisations are different. Project managers, programme managers and risk managers need to consider the specific context of the organisation in order to ensure thorough identification of risks and appropriate risk treatment procedures.

The term 'organisational context' encompasses the political, economic, social, technological, legal and environmental backdrop of an organisation.

Stakeholder Involvement

It is easy for a management team to become internalised and forget that stakeholders are also key participants in everyday business procedures, short-term projects and business-wide change programmes.

Understanding the roles of individual stakeholders and managing stakeholder involvement is crucial to successful. Stakeholders should, as far as is appropriate, be made aware of risks to a project or programme. Within the context and stakeholder involvement, "appropriate" concerns: the identity and role of the stakeholder, the level of influence that the stakeholder has over and outside of the organisation, the level of investment that the stakeholder has in the organisation, and the type, probability and potential impact of the risk.

Organisational Objectives

Risks exist only in relation to the activities and objectives of an organisation. Rain is a negative risk for a picnic, a positive risk for drought-ridden farmland and a non-risk for the occupants of a submarine.

It is imperative that the individual responsible for risk management (whether that is the business leader, the project/programme manager or a specialist risk manager) understands the objectives of the organisation, in order to ensure a tailored approach.

M_o_R Approach

The processes, policies, strategies and plans within the M_o_R framework provide generic guidelines and templates within a particular organisation. These guidelines are based on the experience and research of professional risk managers from a wide range of organisations and management backgrounds. Following best practices ensures that individuals involved in managing the risks associated with an organisation's activity are able to learn from the mistakes, experiments and lessons of others.

Reporting

Accurately and clearly representing data, and the transmission of this data to the appropriate staff members, managers and stakeholders, is crucial to successful risk management. The M_o_R methodology provides standard templates and tested structures for managing the frequency, content and participants of risk communication.

Roles and Responsibilities

Fundamental to risk management best practice is the clear definition of risk management roles and responsibilities. Individual functions and accountability must be transparent, both within and outside an organisation. This is important both in terms of organisational governance, and to ensure that all the necessary responsibilities are covered by appropriate individuals.

Support Structure

A support structure is the provision within an organisation of standardised guidelines, information, training and funding for individuals managing risks that may arise in any specific area or project.

This can include a centralised risk management team, a standard risk management approach and best-practice guidelines for reporting and reviewing organisational risks.

Early Warning Indicators

Risk identification is an essential first step for removing or alleviating risks. In some cases, however, it is not possible to remove risks in advance. Early warning indicators are pre-defined and quantified triggers that alert individuals responsible for risk management that an identified risk is imminent. This enables the most thorough and prepared approach to handling the situation.

Review Cycle

Related to the need for early warning indicators is the review cycle. This establishes the regular review of identified risks and ensures that risk managers remain sensitive to new risks, and to the effectiveness of current policies.

Overcoming Barriers to M_o_R

Any successful strategy requires thoughtful consideration of possible barriers to implementation. Common issues include:

- Established roles, responsibilities, accountabilities and ownership.
- An appropriate budget for embedding approach and carrying out activities.
- Adequate and accessible training, tools and techniques.
- Risk management orientation, induction and training processes.
- Regular assessment of M_o_R approach (including all of the above issues.

Supportive Culture

Risk management underpins many different areas and aspects of an organisation's activity. A supportive culture is essential for ensuring that everybody with risk management responsibilities feels confident raising, discussing and managing risks.

A supportive risk management culture will also include evaluation and reward of risk management competencies for the appropriate individuals.

Continual Improvement

In an evolving organisation, nothing stands still. An effective risk management policy includes the capacity for re-evaluation and improvement. At a practical level, this will require the nomination of an individual or a group of individuals to the responsibility of ensuring that risk management policies and procedures are up-to-date, as well as the establishment of regular review cycles of the organisation's risk management approach.

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