The Risk Management Challenge for Community Housing Providers

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The Risk Hurdles

Anyone who has ever been involved in the management of a not for profit (NFP) organisation will immediately recognise the risk management challenge. By their very nature NFP's generally do not have either the human or financial resources of larger commercial organisations. Rarely do they have internal lawyers, and often they do not have resources dedicated to manage other key functional areas such as human resources or technology. As a result, time poor CEO's, general managers and finance officers are forced to add risk management to their never ending list of daily responsibilities.

Once they scratch the surface of risk management, they realise that risk management is simply one component of their overall governance framework. Because risk management by its nature demands that an organisation analyse its internal inadequacies, if the other components of the governance framework are missing, not only must it implement risk but it must also develop an internal control (compliance) framework, as well as a governance infrastructure which will allow it to effectively document its policies and procedures, train its staff and monitor its performance across a range of areas.

Rather than approaching the risk management process through consultation and communication as recommended in ISO AS/NZ 31000, many NFP's find themselves seeking a quick fix. This quick fix often comes in the form of asking an internal staff member to put together a risk "document" with the hope that this document will at least show that they have tried to do the right thing. Sometimes the risk "document" comes with a basic risk register, however, rarely does the risk program extend to the point that controls and treatment plans have been established. Rarer still does the risk program extend to the point where these controls and treatment plans are being monitored to ensure their effectiveness.

There is a good reason for this. The risk management process does not come naturally to most people. It certainly was not taught at business school when the majority of today's managers were being educated. The concept of identifying individual risk events and analysing these in terms of likelihood and consequence is difficult for most people to follow and the process of monitoring all these controls and treatment plans requires an investment in people and infrastructure which most organisations are not prepared to make without seeing a clear return on investment.

It is common to hear those empowered to implement risk programs talk about the frustrations they experience in gaining cultural acceptance for the process at board and senior management level.

Trade publications and conferences are abound with stories of highly experienced risk managers struggling, often for years, with this very issue. Sadly, without commitment and focus at director and senior executive level, any attempt to implement a risk program will be doomed from the outset.

The reality is that many directors and senior managers still do not understand what is expected of them when implementing a risk management program. Many simply see risk management as a compliance obligation and take a box ticking approach to implementation. Not only will these organisations never experience the significant advantages that they could achieve if they were to do the job properly, they are also leaving themselves wide open to regulatory intervention, fines, penalties and potentially civil claims.

10 Tips for Developing a Risk Program that Works

For those struggling with the risk management concept the following tips have been drawn from over fifteen years of experience assisting organisations (small, medium and large), to develop practical governance solutions.

Tip No. 1 – Embrace The Enterprise Risk Management Approach	There is little point in addressing one category of risk without addressing risks across the whole of an organisation. Embracing Enterprise Risk Management (ERM), allows all managers to understand the "big picture" of key issues affecting their business and to create a structured and manageable continual improvement process. It is this continual improvement process that ultimately leads to the organisation obtaining significant competitive advantages.
Tip No. 2 – Recognise the Relationship Between Risk & Compliance (Internal Control)	Whilst a compliance program can live without a risk program, a risk program cannot succeed without an effective compliance system to back it up. Make sure you put both in place and that they are fully integrated, with each identified risk having a corresponding control or risk treatment. The Australian Compliance Standard (AS 3806) should be used as a benchmark.
Tip No.3 – Integrate Your Risk Based Programs	Yes, that's right; most organisations have more than one risk based program. Work Health & Safety, Fraud & Corruption Control (AS 8001) and Business Continuity (AS/NZ 5050) Programs are all risk based, requiring organisations to identify hazards, analyze them in terms of likelihood and consequence and to implement risk controls and treatment plans. Unfortunately many organisations suffer from "siloed risk syndrome" with each program having been developed in isolation. It is very important that all your risk based programs are fully integrated and link back to your enterprise risk program.

Tip No. 4 – Avoid Paper Based Policies and Procedures, X Drives and Bulky PDF Manual	At the heart of any organisation are the policies and procedures that have been developed in order to manage processes (and risks) efficiently. These policies and procedures must be written in plain English and must be readily available for staff to reference as and when they are needed. Establishment of an intranet with an online content management system that streamlines the publication and maintenance of policies and procedures creates the platform for the implementation of an effective risk management program. Avoid bulky paper based manuals sitting on your organisation's network drive, or uploaded as a PDF document to an intranet portal.
Tip No. 5 – Create a Common Risk Language	The creation of a common risk language (or set of risk categories) is critical to aid the initial risk identification process and to ensure that there is an ongoing reference point for communications and reporting. An effective risk categorization methodology should be broad enough to differentiate between key functional areas within an organization and to capture key external stakeholders, as well as external risk events such as changes in economic conditions and acts of nature.
Tip No. 6 – Develop a Positive Corporate Culture	To manage risk effectively an organisation needs to be able to openly recognise its strengths and weaknesses and undertake constructive debate around what may often be sensitive issues. To this end directors and senior managers must work proactively to develop a corporate culture which encourages participation in the risk management process and transparency in its outcomes.
Tip No. 7 – Remember ERM is Not an Exact Science	Risk management is all about trying to predict the future. It is not an exact science. Whilst it is important to clearly identify an organization's risk appetite through its chosen risk matrix and likelihood and consequence definitions, it is also important to recognize that we are dealing with human beings and there will always be a degree of variation in interpretation throughout the process. Recognising that risk management involves dealing with shades of grey, rather than black and white scenarios, will assist in creating positive outcomes.
Tip No. 8 – Recognise What You Do Well	One common mistake that occurs in implementing risk management programs is to focus on all the things that an organization does badly. This inevitably gets a negative reaction from management, who are generally well aware of these shortcomings and already working towards developing appropriate solutions. Recognising the things that management does well helps break down any resistance to change (i.e. the introduction of the risk management program). It also encourages management buy-in which ultimately will facilitate acceptance of individual responsibilities and proactive participation in the process.
Tip No. 9 - Embrace Workflow Technology	Even a relatively simple organisation will have a 100 or so key risks. Given that each of these risks must have at least one control and given that many of these controls may need to be monitored monthly or quarterly, very quickly the task of managing risks, controls and treatments becomes very labor intensive.

	The use of paper based checklists is highly labor intensive (therefore very expensive) and rarely works well in practice. There are now many cost effective technology solutions on the market designed to managed risk and compliance workflows and to provide streamlined reporting to management.
Tip No. 10 – Remember Risk Management is a Journey	Finally, it is always important to recognize that risk management is a journey. As with most things in life the planning and initial set up phase is crucial in determining the ultimate success of the project. Built on the right foundations and appropriately resourced and managed, a risk management program will deliver significant competitive advantages to those organisations that make the commitment to the process.

Benefits CHP's will get from Implementing ISO AS/NZ 31000?

The benefits of practicing effective risk management are now well documented. They include:

- Increasing the likelihood that your organisation will achieve its strategic goals and objectives;
- Encouraging proactive management and avoiding "firefighting";
- Improving your ability to identify and manage future threats and opportunities;
- Enabling you to better comply with your legal & regulatory obligations;
- Establishing a reliable basis for decision making and planning;
- Improving operational effectiveness, business processes and controls;
- Allowing you to better allocate your resources;
- Reducing the likelihood of adverse risk events occurring and the consequences if they do occur; and
- Minimising business complexity and optimising transparency.