


# IMPLEMENTING RISK MANAGEMENT PROCESSES

Dr DALE F. COOPER, BROADLEAF CAPITAL INTERNATIONAL PTY LTD  
Public Sector Risk Management Conference, Brisbane, 29-31 May 2001



Public Sector Risk Management Conference  
*The Public Sector in Australia - Turning risk into opportunity*

## RISK MANAGEMENT PROCESSES IN PUBLIC SECTOR ORGANISATIONS

**Dr DALE F. COOPER**  
BROADLEAF CAPITAL INTERNATIONAL

© Broadleaf Capital International Pty Ltd, 2001 Public Sector, Brisbane, 30 May 01/ 1

## COPYRIGHT

© Copyright Broadleaf Capital International Pty Ltd, 2001

**BROADLEAF CAPITAL INTERNATIONAL PTY LTD**  
ACN 054 021 117  
23 Bettowynnd Road Pymble NSW 2073  
Tel: +61 2 9488 8477 Fax: +61 2 9488 9685  
Cooper@Broadleaf.com.au  
www.Broadleaf.com.au

These notes are copyright. No part of this material may be reproduced by any means, or transmitted, without the express written permission of Broadleaf Capital International Pty Ltd.

© Broadleaf Capital International Pty Ltd, 2001 Public Sector, Brisbane, 30 May 01/ 2

## OUTLINE

- Introduction
- Risk and corporate governance
- Organisational risk management processes
- Summary

© Broadleaf Capital International Pty Ltd, 2001 Public Sector, Brisbane, 30 May 01/ 3

## ORGANISATIONAL PURPOSE

- The primary purpose of risk management in an organisation is to improve corporate governance
  - Support efforts to identify & withstand external conditions and internal developments that could be detrimental to organisational success
  - Enhance the ability to recognise & exploit opportunities
  - Support cost-effective resource allocation

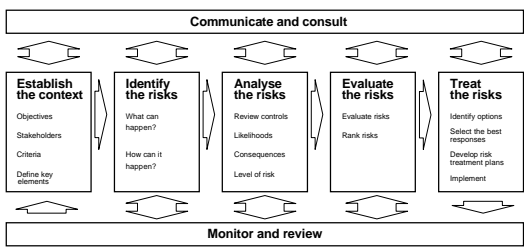
© Broadleaf Capital International Pty Ltd, 2001 Public Sector, Brisbane, 30 May 01/ 4

## BENEFITS OF RISK MANAGEMENT

- Better understanding of uncertainty
- Better design & planning to prevent or avoid risks and exploit opportunities
- Better contingency planning & response selection to reduce negative impacts and capture potential benefits
- Better decisions, leading to . . .
- **Better & more assured outcomes**

© Broadleaf Capital International Pty Ltd, 2001 Public Sector, Brisbane, 30 May 01/ 5

## THE RISK MANAGEMENT STANDARD, AS/NZS 4360:1999



The diagram illustrates the AS/NZS 4360:1999 risk management standard as a continuous cycle. It is bounded by 'Communicate and consult' at the top and 'Monitor and review' at the bottom. The central cycle consists of five sequential stages, each with specific sub-points:

- Establish the context:** Objectives, Stakeholders, Criteria, Define key elements.
- Identify the risks:** What can happen?, How can it happen?
- Analyse the risks:** Review controls, Likelihoods, Consequences, Level of risk.
- Evaluate the risks:** Evaluate risks, Rank risks.
- Treat the risks:** Identify options, Select the best responses, Develop risk treatment plans, Implement.

Arrows indicate the flow from one stage to the next, and feedback loops connect the 'Treat the risks' stage back to 'Identify the risks' and 'Analyse the risks', and from 'Monitor and review' back to the start of the cycle.

© Broadleaf Capital International Pty Ltd, 2001 Public Sector, Brisbane, 30 May 01/ 6

# IMPLEMENTING RISK MANAGEMENT PROCESSES

Dr DALE F. COOPER, BROADLEAF CAPITAL INTERNATIONAL PTY LTD  
Public Sector Risk Management Conference, Brisbane, 29-31 May 2001

## CORPORATE GOVERNANCE

© Broadleaf Capital International Pty Ltd, 2001

Public Sector, Brisbane, 30 May 01/ 7

## CORPORATE GOVERNANCE

- Corporate governance refers to the processes by which organisations are directed, controlled & held to account
- It encompasses authority, accountability, stewardship, leadership, direction & control exercised in the organisation

Source: ANAO Principles & Better Practices Discussion Paper

© Broadleaf Capital International Pty Ltd, 2001

Public Sector, Brisbane, 30 May 01/ 8

## CORPORATE GOVERNANCE (Barrett)

- Corporate governance is basically concerned with structures & processes for decision-making and with the controls & behaviour that support effective accountability for performance outcomes
- Major elements are business planning, **risk management**, performance monitoring & accountability

© Broadleaf Capital International Pty Ltd, 2001

Public Sector, Brisbane, 30 May 01/ 9

## TRENDS IN CORPORATE GOVERNANCE

- Moving from **conformance** ...
  - Focus on compliance, controls, minimum standards & responsibilities
- Moving towards **performance** ...
  - Focus on best practice, improved corporate outcomes & value creation

© Broadleaf Capital International Pty Ltd, 2001

Public Sector, Brisbane, 30 May 01/ 10

## PERFORMANCE & RISK

- Risk is unavoidable in the modern organisational environment
- Increasingly, risk taking is necessary to achieve targets . . .
- . . . **but it must be managed**

© Broadleaf Capital International Pty Ltd, 2001

Public Sector, Brisbane, 30 May 01/ 11

## ESTABLISHING THE CONTEXT: GLOBAL PERSPECTIVE

- Targets for performance
  - Objectives
  - Stakeholders
  - Criteria, indicators & standards
- Change
  - New technologies, regulatory change
- Scope & focus of risk management
  - What might go wrong?
  - How can we do better?

© Broadleaf Capital International Pty Ltd, 2001

Public Sector, Brisbane, 30 May 01/ 12

# IMPLEMENTING RISK MANAGEMENT PROCESSES

Dr DALE F. COOPER, BROADLEAF CAPITAL INTERNATIONAL PTY LTD

Public Sector Risk Management Conference, Brisbane, 29-31 May 2001

## RISK MANAGEMENT FOR PERFORMANCE

- Focus on what might happen
  - Risks **and** opportunities
  - Ways of avoiding problems
  - Ways of exploiting opportunities
- Part of strategic thinking

© Broadleaf Capital International Pty Ltd, 2001

Public Sector, Brisbane, 30 May 01/ 13

## RISK IDENTIFICATION: EARLIER & BROADER

- Environmental scanning
- SWOT
- Hazard & vulnerability analysis
- Trends & warning signals
  - Monitoring & review processes
  - Incidents & near-misses

© Broadleaf Capital International Pty Ltd, 2001

Public Sector, Brisbane, 30 May 01/ 14

## CONTROLS

- Management systems & procedures
  - Human systems, training & culture
  - Physical controls & barriers
  - Commercial & legal controls
- ... but they may not all work well !

© Broadleaf Capital International Pty Ltd, 2001

Public Sector, Brisbane, 30 May 01/ 15

## CONTROLS & RISK ASSESSMENT

- Actual risk
  - Based on likelihoods & impacts, with the current controls in place
- Inherent risk
  - How bad might it be if there were a credible failure of controls ?

© Broadleaf Capital International Pty Ltd, 2001

Public Sector, Brisbane, 30 May 01/ 16

## ORGANISATIONAL PROCESSES

© Broadleaf Capital International Pty Ltd, 2001

Public Sector, Brisbane, 30 May 01/ 17

## ORGANISATIONAL RISK MANAGEMENT

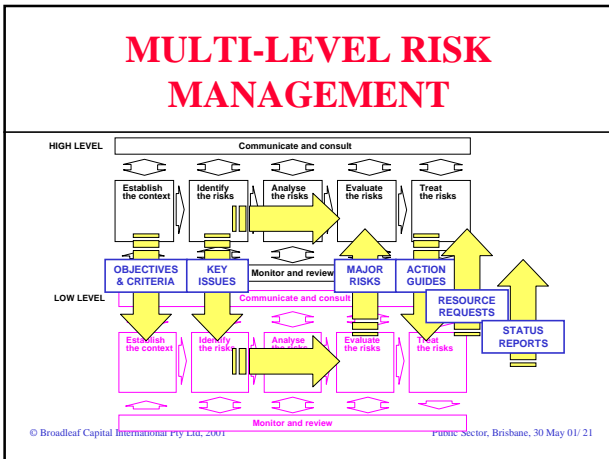
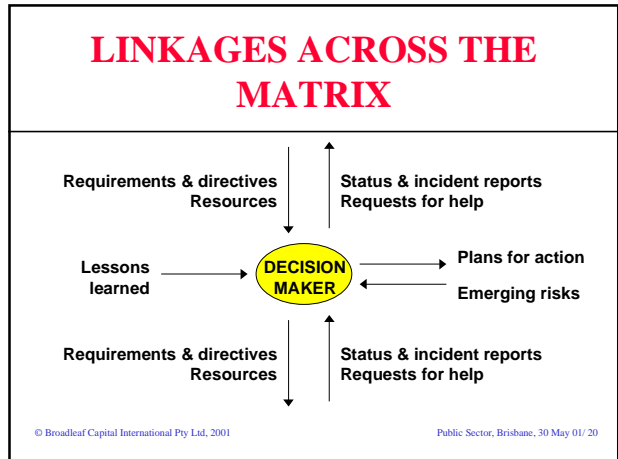
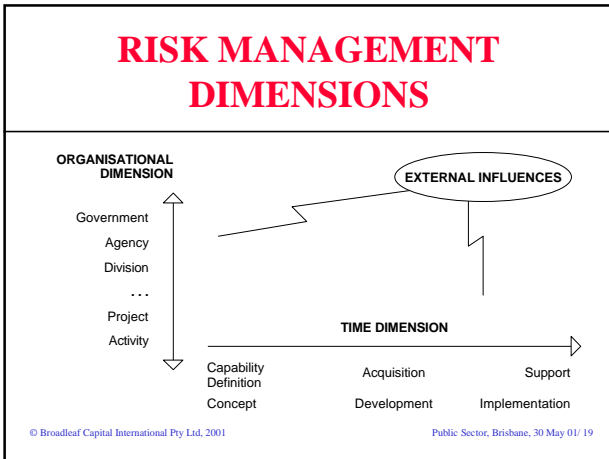
- Risk assessment underpins most organisational tasks
  - Strategy development, planning , budgeting, operational activities ...
- Aim of RM in an organisation
  - Part of day-to-day management
  - Not a 'one off' activity

© Broadleaf Capital International Pty Ltd, 2001

Public Sector, Brisbane, 30 May 01/ 18

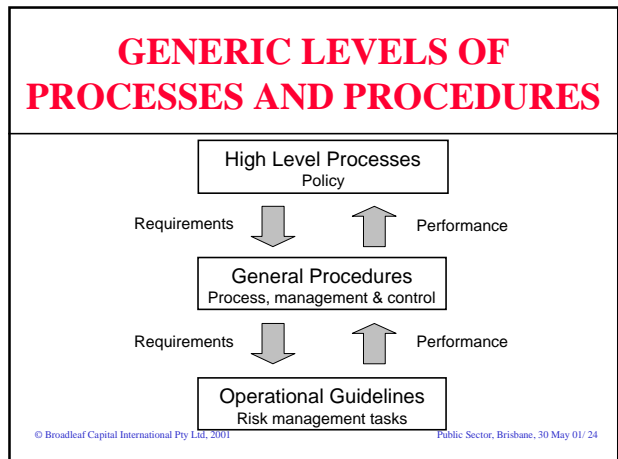
# IMPLEMENTING RISK MANAGEMENT PROCESSES

Dr DALE F. COOPER, BROADLEAF CAPITAL INTERNATIONAL PTY LTD  
Public Sector Risk Management Conference, Brisbane, 29-31 May 2001



- ## REQUIREMENTS
- Consistent reports of actual & emerging risks
  - Comparability across the Agency, across projects, and through time
  - Visibility of key treatment actions & status as required
  - Transparency and traceability of risk management decisions
  - Timely requests for assistance, where necessary
  - **PLENTY OF WARNING, NO SURPRISES !!**
- © Broadleaf Capital International Pty Ltd, 2001      Public Sector, Brisbane, 30 May 01/22

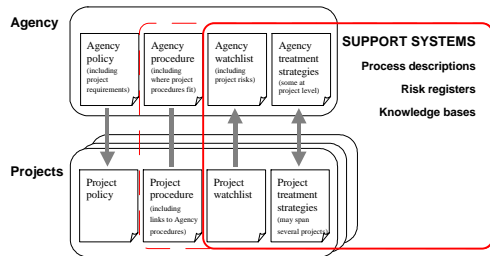
- ## REQUIREMENTS: PROCESSES
- Commitment & ownership by senior managers
  - Assurance that risks are being identified & managed well
  - Consistency through the organisation
  - Integration with strategic, business & project objectives & plans
  - Balanced, cost-effective application of effort
  - Responsive and adaptable to changing circumstances
  - Required at ALL levels
  - Cost-effective implementation of the process
- © Broadleaf Capital International Pty Ltd, 2001      Public Sector, Brisbane, 30 May 01/23



# IMPLEMENTING RISK MANAGEMENT PROCESSES

Dr DALE F. COOPER, BROADLEAF CAPITAL INTERNATIONAL PTY LTD  
Public Sector Risk Management Conference, Brisbane, 29-31 May 2001

## MULTI-LEVEL PROCESS LINKS



© Broadleaf Capital International Pty Ltd, 2001

Public Sector, Brisbane, 30 May 01/ 25

## PRACTICAL FIRST STEPS

- Review current practices & future requirements
- Develop draft high-level processes & procedures
- Review & trial processes & procedures with key personnel
- Facilitate the initial high-level implementation
- Review the high-level implementation & address problems or barriers
- Develop & implement compatible processes & procedures at lower levels across the Agency

© Broadleaf Capital International Pty Ltd, 2001

Public Sector, Brisbane, 30 May 01/ 26

## OUTCOMES FROM A RISK PROCESS DEVELOPMENT

- Risk management policy statement
- Risk management procedures
- Risk watchlists (at Agency & lower levels)
- Lower level risk management procedures
- Risk treatment strategies
- Risk management databases

© Broadleaf Capital International Pty Ltd, 2001

Public Sector, Brisbane, 30 May 01/ 27

## OUTCOMES AND BENEFITS

- All significant risks and opportunities are identified
- Identified risks and their outcomes are understood and quantified, as far as necessary for decision making
- Assessments of risks are comparable, to support consistent priority setting and resource allocation
- Strategies for treating risks take account of opportunities to address more than one risk with a particular strategy, and integrate related strategies where this is worthwhile
- The process itself and the risk treatment strategies are implemented cost-effectively

© Broadleaf Capital International Pty Ltd, 2001

Public Sector, Brisbane, 30 May 01/ 28

## PRACTICAL REQUIREMENTS FOR CULTURE CHANGE

- Leadership from the top
- Champions through the organisation
- Success stories
- Culture of open reporting
- Centre of excellence
- Training
- Support tools
- Identification of inhibitors

© Broadleaf Capital International Pty Ltd, 2001

Public Sector, Brisbane, 30 May 01/ 29

## SUMMARY

© Broadleaf Capital International Pty Ltd, 2001

Public Sector, Brisbane, 30 May 01/ 30

# IMPLEMENTING RISK MANAGEMENT PROCESSES

Dr DALE F. COOPER, BROADLEAF CAPITAL INTERNATIONAL PTY LTD

Public Sector Risk Management Conference, Brisbane, 29-31 May 2001

## PROGRESS & DIRECTIONS

- Sound basic process
- Supporting tools
- Continuous review & improvement
- Cultural aspects
- Organisation-wide implementation

© Broadleaf Capital International Pty Ltd, 2001

Public Sector, Brisbane, 30 May 01/ 31

## CORPORATE GOVERNANCE IN THE PUBLIC SECTOR

- Convergence with the private sector
- An increased focus on performance
- Risk management is an important contributor to successful outcomes
- **Current danger areas**
  - Outsourcing
  - Private financing

© Broadleaf Capital International Pty Ltd, 2001

Public Sector, Brisbane, 30 May 01/ 32

## OPTIMUM RISK ALLOCATION

- How much risk *can be* transferred?
- How much risk *is* transferred?
- What are the residual risks?
- What skills are required to manage the new risks created?

© Broadleaf Capital International Pty Ltd, 2001

Public Sector, Brisbane, 30 May 01/ 33

## RISK PRICING

- What is it worth to transfer a risk?
- Savings or cost reductions
  - ... compared with ...
- Loss of
  - Expertise
  - Corporate memory
  - Control of assets ...

© Broadleaf Capital International Pty Ltd, 2001

Public Sector, Brisbane, 30 May 01/ 34

## CONCLUSION

- The challenge is to make sure we have processes that allow us to really understand the compromises we are making, and then to make informed decisions
- I think we are on the right track, but we still have a way to go

© Broadleaf Capital International Pty Ltd, 2001

Public Sector, Brisbane, 30 May 01/ 35

## BROADLEAF CAPITAL INTERNATIONAL PTY LTD

Dr Dale F. Cooper, 23 Bettowynnd Road, Pymble, NSW 2073

Tel: 02 9488 8477  
0419 433 184

Fax: 02 9488 9685  
Cooper@Broadleaf.com.au  
www.Broadleaf.com.au

Dr Stephen Grey  
Geoff Raymond  
Phil Walker  
Dennis Goodwin  
Pauline Bosnich

Grey@Broadleaf.com.au  
Raymond@Broadleaf.com.au  
Walker@Broadleaf.com.au  
Goodwin@Broadleaf.com.au  
Bosnich@Broadleaf.com.au

© Broadleaf Capital International Pty Ltd, 2001

Public Sector, Brisbane, 30 May 01/ 36

## **IMPLEMENTING RISK MANAGEMENT PROCESSES**

**Dr DALE F. COOPER, BROADLEAF CAPITAL INTERNATIONAL PTY LTD**  
**Public Sector Risk Management Conference, Brisbane, 29-31 May 2001**

### **BROADLEAF'S RISK MANAGEMENT SERVICES**

- Strategic & policy risk management
- Project & procurement risk management
- Risk assessment workshop facilitation
- Risk management plans & implementation
- Quantitative risk & financial modelling
- Risk assessment for private financing options
- Risk management training
- Risk management procedures & review

© Broadleaf Capital International Pty Ltd, 2001

Public Sector, Brisbane, 30 May 01/37