

The future of Risk Management

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The future of Risk Management

- ✎ ISO 9000 has provided the **basic platform** for management systems, now it is the time to proceed.
- ✎ Important aspect of management: To navigate through **uncertainties**.
- ✎ In most cases, perception of risk has been **intuitive**.
- ✎ Risk management provides a **structured way** of estimating threats and opportunities. Not always correct, but **a lot better** than intuition.



The nature of risk

- ☞ Acceptance of risk is **subjective**, what is safe for one person might be unsafe for another.
- ☞ It is the same for **organizations**: Risk criteria for risk appetite/aversion should be established.
- ☞ Perception of risk is **not rational**: You may decline an opportunity with positive expectation if the loss might be high, but accept a bet with negative expectation if the loss is small and the possibility to win the big prize exists (like in lottery).

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The nature of risk

- ☞ A central aspect is to avoid risk that is **exceptionally harmful**.
- ☞ There is a significant element of **emotion** in risk that may **overrule logical decisions** from risk management, but at least, then we know what we do.

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Positive and negative aspects of risk

- 📖 **Traditionally**, risk is negative, a threat.
- 📖 All risk have a **positive element** that we tend to forget.
- 📖 The greatest benefit form risk management will come for **identifying positive risk**, opportunities.
- 📖 This was a significant message in NZS/AS 4630 “Risk Management”, and is carried forward in ISO 31000: Many **opportunities are lost** because we focus on negative risk.

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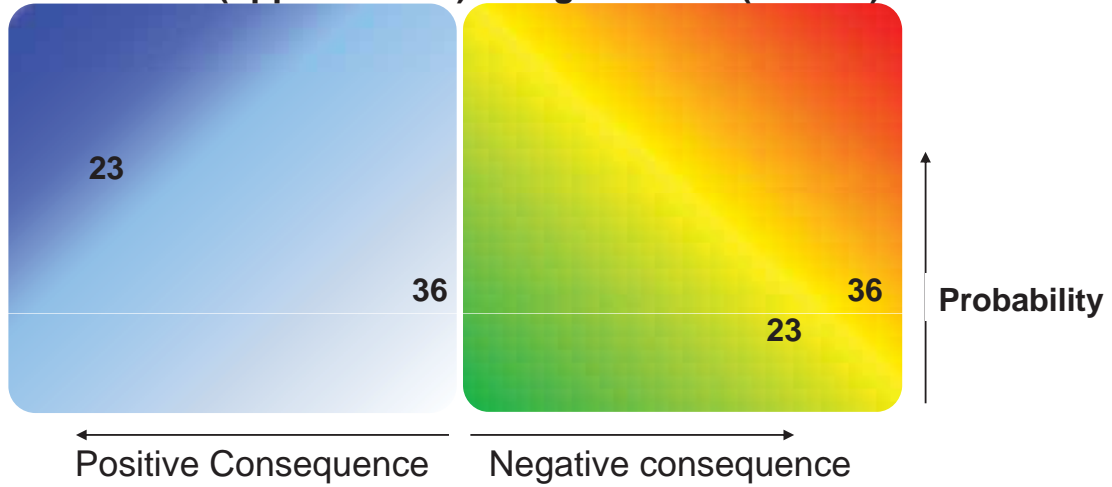
Positive and negative aspects of risk

- 📖 Some organizations require that an identified risk shall be evaluated for **both negative and positive effects** at the same time. Example:

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Positive risk (opportunities)

Negative risk (threats)



Example:

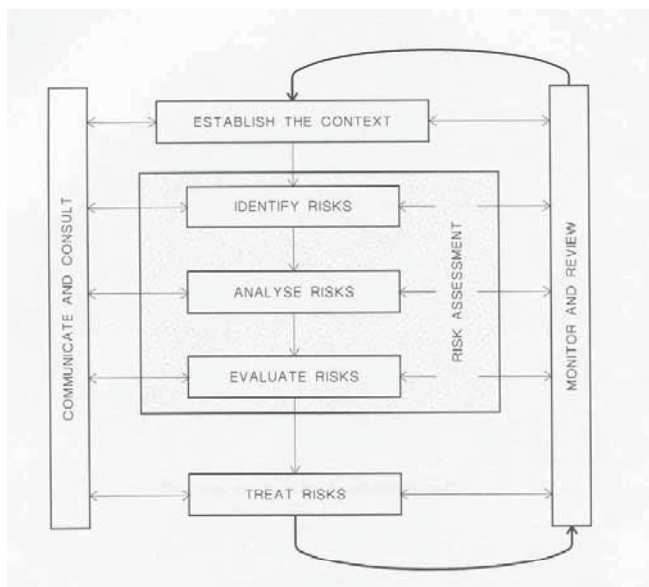
Risk register item 23, risk capital investment. Linked and adjustable consequence (magnitude of investment).

Risk register item 36, Fire/explosion in factory. Linked probability.



Identifying risk

Do we really analyze the right things? A **system** for risk identification is **the core** in all risk management. (LNG)



ISO 31000 gives us a tool to investigate this: **“Establish the context”**.

This is identifying all **stakeholders** and conditions that affect us and that we affect.



Identifying risk

- ▣ Identification of stakeholders and other conditions should, in principle, **have no limit**.
- ▣ When this is as **complete as practicable**, we decide which have the most potential for negative and/or positive risk.
- ▣ These contexts shall be the starting point for **risk identification**.

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Identifying risk

- ▣ **External** stakeholders/conditions may be the competitors, market situation, the bank, the insurance company, the tax office, the local community, etc.
- ▣ The most significant **internal** stakeholders/conditions may be the employees, their family, business goals, etc.
- ▣ By this approach, we reduce the chance of **forgetting significant areas of risk** in our risk identification.

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The role of risk in future management models

- ▣ Factual approach to decision making: We are moving from **assumptions** to using data from a **consistent system**.
- ▣ Risk management is **heavily reliant** on Quality Management, and a natural further development (ISO 9004).
- ▣ Quality Management and Risk Management will probably **merge into one system** in the future.

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The role of risk in future management models

- ▣ The title “**Quality and Risk Manager**” (QRM) has already become common in the Norwegian oil and gas industry.
- ▣ The same industry requires their **main contractors** to implement a Risk Management system according to the guidelines of ISO 31000.

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Certification of Risk Managers

- 📄 For 5 years an **accredited certification scheme** for Risk Managers certification has been running in Norway, first based on NZS/AS 4630 and later on ISO 31000.
- 📄 **Certification demand** from persons and their organizations is steadily increasing, as knowledge of the scheme and risk management becomes more wide spread.
- 📄 We can already see the demand for **certifying risk management systems** in organizations. A requirement standard will have to be developed.



Closing remark

- 📄 In a survey of large to medium size companies in Norway, 70% of the CEO's said risk management is very important for their companies' future, but only 30% of the same CEO's had done anything active about it.
- 📄 This will change.

