Adding Value to Risk Management Programs in Hard Times

By Paree Roper

Increasing the value of your risk management program during these difficult economic times may seem like an uphill climb. Public risk management programs and the entities they serve are already cut to the bone as far as budget, personnel, and time are concerned. In the coming year, many risk management departments will face additional cuts, furloughs, or consolidations, so enlarging a program may not be a viable solution. Nevertheless, now is exactly the time when risk management programs can show their true value.

HOW LESS CAN BE MORE

The phrase “less is more” is attributed to Ludwig Mies van der Rohe. Mies, as he was known, was considered one of the fathers of the Modern style of architecture, which has little or no ornamentation and features minimal frameworks that house flexible interior spaces. The version risk managers are hearing, though, is “do more with less.” For the risk manager, these phrases dovetail.

The components of Mies’s buildings often served several purposes. For example, the spaces in Crown Hall, his signature building at the Illinois Institute of Technology in Chicago, can be configured as classrooms one day and design studios the next. This type of built-in flexibility accommodates change quickly and makes the best possible use of the space that is present. A risk management program is similar in that neither requires lots of bells and whistles; they provide more bang for the buck by being flexible.

A risk management program can exercise this kind of flexibility by using components of the organization’s risk plan in more intense ways. Many risk managers are busy responding and reacting and do not think in these terms, but just as Mies helped reshape the way architects thought about buildings by changing interior spaces, public risk managers can adapt to change and add value by visualizing and using their program components in different ways.

FOCUS ON RISK MONITORING

Many public risk managers have well-established programs. First-rate claims management, stellar loss control, and excellent loss data provide organizations with information and services that reduce risks, costs, and exposure. But while risk monitoring is a critical element in the risk management process, it is often the most neglected component, given the realities of day-to-day operations. Risk monitoring should be given more attention so that the effectiveness of risk plans can be measured.
Risk monitoring is a status reporting mechanism whereby new and residual risks can be revealed, and responses to risk solutions can be measured and evaluated. The value of risk monitoring is that it provides solid data on important mitigation work the organization is doing. It can also be promoted to managers as an additional decision-making tool, as it can provide them with important data on risk that they might have never received or considered.

**RISK REGISTERS**

Because hard data are necessary to properly monitor risk, so the use of a risk register (also known as a risk log) is imperative. A risk register records the known risks, defines the potential these risks have for disrupting operations, and lists the actions that should be taken to mitigate the risk. Although risk registers are often discussed in terms of an enterprise risk management program, any risk management program can benefit from keeping a comprehensive and easily accessible listing of the risks that affect the entity.

There is no such thing as a silver bullet risk register that will work for all entities. There are, however, some basic categories that can be used in order to create a useful document. The following is by no means a complete listing of components, but it gives a base from which to start:

**Dates.** Because the risk register records an ongoing process, it is a living document. Any time a risk is identified or modified, the date should be recorded. This includes target dates as well as the dates goals are completed.

**Description.** A short phrase that describes the actual risk (e.g., flood, embezzlement, etc.).

**Type of Risk.** A broader classification of the risk (e.g., property, financial, etc.).

**Likelihood of Occurrence.** An assessment of the chance of a particular risk happening. It can be expressed in terms of low, medium, or high probability and can be given assigned numeric values.

**Severity.** The potential impact on the organization’s operations if the risk were to occur.

**Owner.** The person, persons, or groups within the organization who are responsible for managing and mitigating a particular risk.

**Status.** Indicates whether a particular risk has been mitigated or is still relevant.

The value in creating a risk register is that it provides documentation of potential perils, risk management activities, and courses of action, and it gives all managers within the organization information for planning and managing activities that they can’t get anywhere else. Claims data can give a sharp picture of the loss experience in a department, but a risk register can show items like residual risks and new risks that have been uncovered — items that do not show up in claims reports.

**LESSONS LEARNED**

To add further value to the program, the successes and shortcomings must be reviewed in an honest fashion. There are many instances where we know anecdotaly whether something went right or wrong, but this valuable information often does not get shared with the people who own the risk. Risk managers can take a hint from a project manager’s playbook by creating a lessons-learned document. This document is like a journal that records risk reduction activities on a regular basis.

The value in creating this document is that it can point out undesirable outcomes and reinforce behaviors that lead to desirable results so that time, energy, and other resources are used more efficiently. It can also be used to help coordinate risk management efforts across departmental borders more effectively, since all parties will receive the same information.

As with the risk register, no one format is blessed by any of the major risk management organizations. However, there are certain components that should be a part of every lessons-learned document. The following questions can be used as starters:

- What were the three biggest successes of this process/new form/risk management activity, etc.? What actions contributed to these successes?
- Are there any other lesser successes that need to be noted? Are there additional people to whom we need to give credit for these successes?
- What sorts of improvements can be made to this process/form/risk management activity? What actions contributed to a not-so-successful result?
How has implementation of this activity affected the budget? How has it affected claims activity?

Has information on how to do the process been communicated clearly? What is expected? What, exactly, are we trying to resolve? Where are the blockages?

Does the quality of the end result meet the organization’s standards?

Discussions and feedback sessions can and should occur throughout the implementation of a risk management-related activity. Remember, people are often reluctant to speak honestly about what is going on for fear of being blamed for a problem or failure. Focus on solutions instead of blame, and guide those involved toward solutions that will have the greatest positive impact.

**CONCLUSIONS**

The perception by some that risk management activities are a cost to the organization can be hard to change. Some administrators may be tempted to eliminate or severely downgrade the risk management function, citing hard times, economic necessity, or budget pressures. This is the equivalent of surfing the Internet without anti-virus protection — you can certainly do it, but it is ill advised. Strengthening and integrating components of the risk management program in the ways discussed in this article makes it harder for those sorts of arguments to prevail. These risk management tools not only save money, but also provide others in the organization with different sets of tools that can address ever-changing needs.

The items discussed are by no means a comprehensive plan or a panacea, but they are relatively easy to implement and provide a decent return for the time and energy invested. While the economic realities may prevent the purchase of a Cadillac program, these components can prove their value by helping risk managers (and others) keep the engines tuned and the entity running at a smooth pace.

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