

Implement Risk Plans and Business Continuity



IMEC



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Implement A Risk Management Program

- What is risk-based thinking?
- What is risk management?
- Cultural Risk (Risk Averse or Risk Tolerant)
- Risk-based opportunities

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What is risk-based thinking?

- Only consider risks that apply to your organization
- Rather than tackling all risks / break it down to specific functions (e.g. sole source – supply chain)
- Don't limit risk-based thinking to only grandiose ideas
- Use multi-functions to capture risk from all areas of the business (e.g. Line, Supervisor, Manager, Director)
- Not every area of business has the same level of risk

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What is risk management?

- The identification, analysis, assessment, control, and avoidance, minimization, or elimination of unacceptable risks.
- An organization may use risk assumption, risk avoidance, risk retention, risk transfer, or any other strategy (or combination of strategies) in proper management of future events.

Read more: <http://www.businessdictionary.com/definition/risk-management.html>

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Risk Culture – Risk Adverse | Risk Tolerant

- An organizations view on risk or “risk culture” may be described as Risk Adverse or Risk Tolerant

| | Adverse | Tolerant |
|---------------|---|--|
| Communication | Carefully crafted and reviewed | Quickly released, no or limited review process |
| Products | Well defined, lengthy testing, legacy product | Rapid development, lack of clear specification, innovative |
| Supply Chain | Long relationships, local and stable | New suppliers, long distances, less stable environments. |

- A risk management process helps to find the balance between adverse and tolerant and leverages the opportunities while managing the threats.

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Risk-based Opportunities

- Are you potentially losing business?
 - *What are opportunities / markets are available?*
 - *Is there another use for your product?*
 - *Is your competition in financial trouble?*
- What are your business strengths?
- Opportunities may have inherent risk?
 - *\$1 million order means other orders will be late*
- Necessity is the mother of invention

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The Risk Management Process

- Process
- Identify risk
- Assess risk
- Manage risk

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Risk Management – Process

- The first step in risk management is to establish a process
- In the most basic form it may be:
 - *A defined policy or method*
 - Identify, Assess, and Manage
 - *Allocation of resources such a meetings, roles and responsibilities, tools*
 - *Integration with existing business operating system*
 - *Basic communication and reporting*

A detailed risk management process may be found in ISO 31000

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Risk Management – Identify

- Identifying risk can be challenging. You don't know, what you don't know!
- The starting point can be long term business strategy and your daily Key Process Indicators
- Questions to ask:
 - *What could stop you from achieving the goal?*
 - *What could go wrong?*
 - *What do you see as the biggest weakness?*
 - *If you could fix one thing tomorrow what would it be!*

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Risk Management – Identify

- You may Identify risk through surveys, individual interviews, or group meetings.
- Once the risk statements are collected, they should be categorized to ease in assessment.
 - *Labor, Quality, Transportation, Manufacturing, Legal, Competitor, Health & Safety, Environment, Financial, Economy, and so on...*
 - *Guidance on Risk Types can be found in many publications such as ISO 31000 and COSO*

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Risk Management – Identify

Table 3a.1: Example risk inventory

| Strategic | Operational | Financial | Compliance |
|---|---|---|---|
| <ul style="list-style-type: none"> • Vision and core values • Corporate governance • Organizational structure • Strategic planning • Mergers and acquisitions valuation and pricing • Investor relations • Competition • Changing customer preferences or lifestyles • Growing middle class • Urbanization/growing population • Emerging markets | <ul style="list-style-type: none"> • Research and development • New products • Marketing • Budgeting and forecasting • Raw material availability • Suppliers • Production management • Product stewardship • Inventory management • Employee engagement • Labor relations • Human rights • IT investment • Cybersecurity • Business continuity • Pandemic • Physical impacts of climate change | <ul style="list-style-type: none"> • Interest rate volatility • Foreign currency volatility • Cash management • Credit risk • Accounting policies • Accounting estimates • Internal control • Tax strategy and planning | <ul style="list-style-type: none"> • Fraud • Bribery • Conflicts of interest • Country/state/local regulation • Tax regulation • Trade regulation • IP management and protection • Greenhouse gas emissions • Water treatment • Health and safety |

Source: <https://www.coso.org/Documents/COSO-WBCSD-ESGERM-Guidance-Full.pdf>

- The example may seem overwhelming, but its just a tool to help group risks for assessment

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Risk Management – SWOT Analysis

| | |
|--|--|
| Strengths (What you do well?) | Weakness (What can you improve?) |
| Opportunity (What strength can be used?) | Threats (What/Why competitor is a risk?) |

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Risk Management – Assessment

- Risk Assessment is the prioritization of risk based on key factors such as
 - *Severity or Impact (how bad it hurts)*
 - 1 through 10 (minimal to catastrophic)
 - Low, Medium, High
 - *Likelihood or Probability (the odds it will happen)*
 - 1 through 10 (10% to 100%)
 - Low, Medium, High (<25%, 25-75%, >75%)
- Simplicity is key, keep it simple!

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Risk Management – Assessment

- Using three levels of assessment will result in a simple 3X3 matrix to prioritize the risks.

| | | | | | |
|----------|------|--------|---------------------|---------------------|-------------------|
| Severity | 7-10 | High | Medium ^B | High | High ^C |
| | 4-6 | Medium | Low ^D | Medium ^A | High |
| | 1-3 | Low | Low | Low | Medium |
| | | | Low | Medium | High |
| | | | 1-3 | 4-6 | 7-10 |
| | | | Likelihood | | |

| | | |
|---|---------|-------------------------------|
| A | Labor | Availability of skilled labor |
| B | Quality | Quality of products |
| C | Economy | Condition of Economy |
| D | Legal | Legal Compliance |

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Risk Management – Assessment

- Other prioritization methods may be added
 - *Trigger or Detectability (how you know the risk occurs)*
 - *Speed (How fast the risk happens)*
 - *Recovery (How quickly/capable to recover)*

Focus on simplicity when developing a process, then add capability through continuous improvement
- A note on urgency
 - *Sometimes during risk identification and assessment, a big “WOW” may be discovered. STOP the assessment and take immediate action!*

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Risk Management - Manage

- The final step in Risk Management is the Manage phase... or Action Planning!
- Like all action plans, key elements are what to do, by when, and who will do it!
- Risk Management actions are commonly based on 4 categories: Avoid, Transfer, Mitigate and Accept.


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Risk Management - Manage


| | |
|---|--|
| <p><u>Avoid</u> Change plans No quote a program Do not enter a partnership</p> | <p><u>Transfer</u> Move production Outsource to third party Virtual Servers / Storage</p> |
| <p><u>Mitigate</u> Reduce the impact Take specific action Monitor effectiveness</p> | <p><u>Accept</u> Risk is identified and accepted No additional action Monitor and review</p> |

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Risk Management - Manage

- Another option when managing risk is to exploit or take advantage of a risky opportunity
- To be considered with the risk has a positive upside
- Managed and monitored through action plans and project management

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Risk Management - Manage

- Key Activities of Risk Action Planning are:
 - *Assign and Owner*
 - *Assemble a cross functional team*
 - *Confirm the facts*
 - *Define the action*
 - *Establish Metrics*
 - *Communicate and Monitor*

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Risk Management Plan Updates

- How often should you update the risk plan?
- Should specific events trigger a review?
- How should the risk plan link to the continuity plan?

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Update: How often to update Risk Plan?

- How quickly does your market change?
- Do you have regulations to abide by?
- How often do you perform financial reviews?
- Do your customer requirements change?

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Risk Plan Update Discussion

| | Advantage | Disadvantage |
|-----------|--|--|
| Annually | Enough for slow changing business | Reactive Response rather than planning |
| Quarterly | Balanced Approach to business change and | May be too much for slow changing business |
| Monthly | Quick Response | Significant Management Overhead |
| Weekly | Quick Response | Significant Management Overhead |

Business must decide

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Update: What triggers force Risk Plan Updating?

- Global Events (War, Pandemic, Flood, etc...)
- Business Change (New Products, Company merger, product extension)
- Change in leadership
- Financial challenge

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Update – Risk Action Plans evolve to Continuity Plans

- Risk management is a broadly applied process to identify, assess, and manage the risks to achieving objectives.
- Continuity Plans are specific responses to worst case scenarios
- Business Continuity defines what is needed to keep the business running when “X” occurs.

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Update – Risk Action Plans evolve to Continuity Plans

- Simple, effective continuity plans identify the trigger, response, action, who, and test date!

| Trigger Event | Response | Action | Who | Test Date |
|-------------------------------------|--|--|-----------------------------|-----------|
| Air Compressor Failure | Obtain rental compressor | Contact 1: Rent It Now Bob Air @ 555-1234 | Maintenance Dept | Q1/2020 |
| Water Interruption | 50 gallon reserve in storage | Use reserve for filling toilets and washing hands. By replacements from local store. | EHS Dept | Q4/2019 |
| Significant Electrical Interruption | Obtain rental generator | Contact 1: Rent It Soon Ed Charge @ 555-4321 | Maintenance Dept | Q4/2019 |
| Main office fire | Operate from alternate location or home | Contact Commercial Real Estate Co. @ 555-0101 identify temporary space | Human Resources Dept | Q1/2020 |
| Line One Machine Failure | Transfer production to Line 2 or Plant 2 if needed | Prepare documentation and customer notification | Operations and Quality Dept | TBD |

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Risk and Continuity Planning Summary

- Risk management and risk based thinking are not "new programs" or "flavors of the day"
- Risk based thinking should be integrated into your business operating system
- A risk management process should start simple; Identify, Assess, and Manage
- Risk management should be updated regularly
- A basic continuity plan is a living document, revisit and test the plan for effectiveness

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