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A risk-based approach to management

From Eduard Pfister

The evaluation of risks on the basis of the probability of their occurrence and the extent of any resulting damage together with the subsequent derivation of suitable measures forms the starting point for operative risk and opportunity management. Examples can be found in risk management standards such as ONR 49000 and ISO 31000.

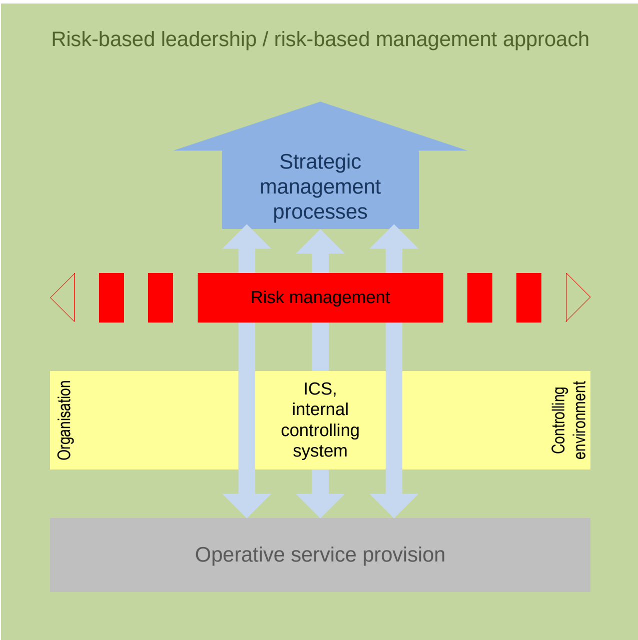
The company management should not simply take over the legal and official requirements on a 1:1 basis, but also implement them with respect to the risks revealed by the quality and management information system.

With effect from 2008, Switzerland (as well as other countries) has made the provision of ICS documentation for all social systems mandatory. Its presence must be confirmed by an external auditor.

Four important experiences characterise the implementation of an ICS in the private sector:

- Flexible and expandable: an ICS should adhere to a specific concept from the very beginning. This allows it to grow along with the complexity of the organisation and any problems that arise
- Uniqueness: an ICS should be built up in standardised and modular form. At the same time, however, it is a unique system oriented to the company, a specific group of people and their projects
- Cover obvious interfaces: an ICS touches upon considerable areas for which tools are already in use (project management, management information systems, quality management etc.). To avoid duplications, pre-existing solutions should be suitably coordinated
- Executive function: ICS and top management. An effective ICS cannot be implemented without the support of top management. It must consequently be implemented in top-down fashion. It must be accepted and understood by everyone.

Risk-based leadership (risk-based approach) aims to implement these requirements. The approach is:



- Goal-oriented: the leadership system does not specify every single safety measure to be taken, but merely sets a maximum permitted risk in quantitative form. The operative risk management decides which resources to apply to meet the requirements, whereas the company management, or rather the board of directors/supervisory board, provides the necessary resources and makes the corresponding competences available
- Uniformity: the management system allows different risks to be regulated on the basis of comparable criteria
- Probabilistic statement: risk-based leadership assumes that risks can never be eliminated completely but merely "optimised". Risks are taken into account but are limited by rational criteria (tolerance limits).

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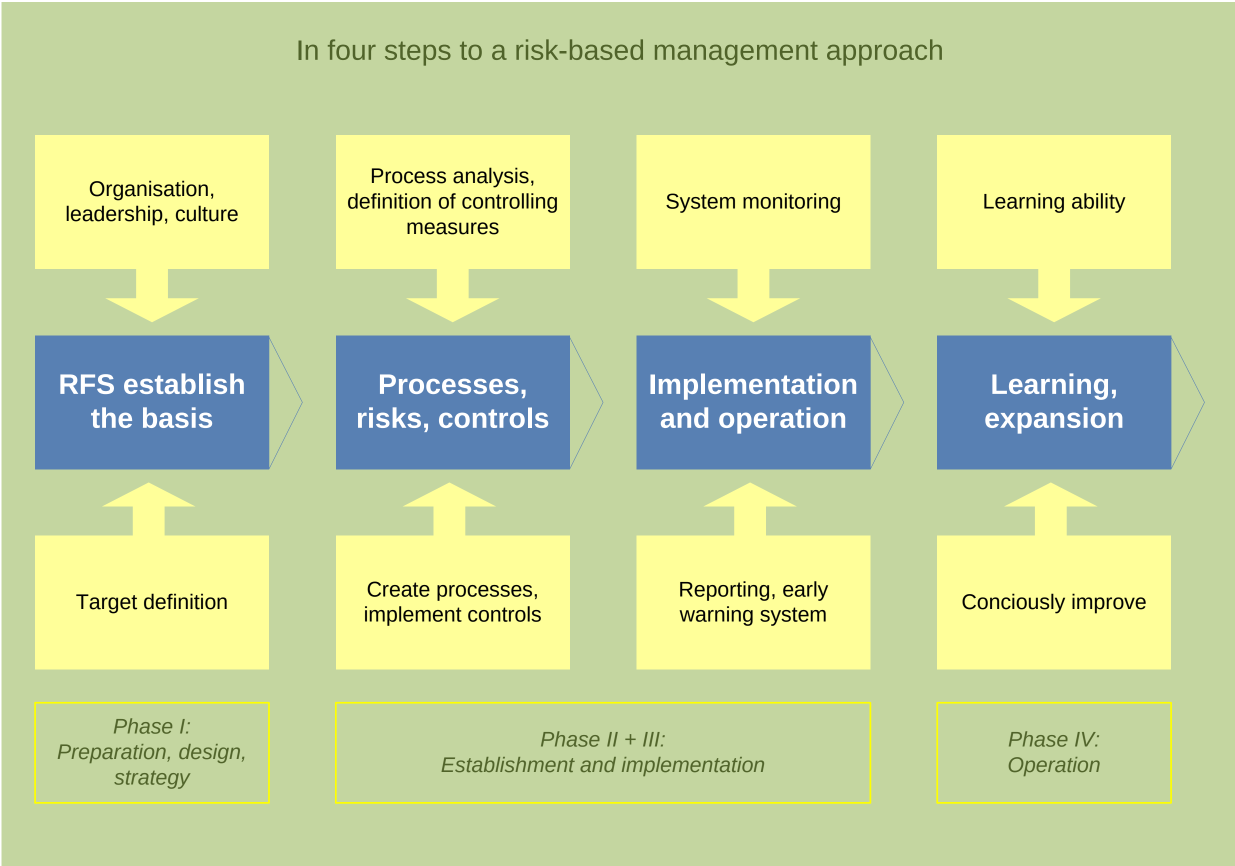
Risk-based leadership goes beyond mere operative and generic risk analysis. It is a management tool designed to systematically secure the achievement of objectives. It includes all the organisational methods and measures applied by the responsible company management to assure the appropriate execution of business procedures. The corporate culture plays an important role. Executives and employees shape their environment with their integrity, ethical values and exemplary behaviour.

The structure of a risk-based management approach can be set up in four steps.



Previous experience shows that numerous stumbling blocks are encountered in real applications, for example when the project:

- Gets insufficient support from top management (company management, board of directors)
- Starts without a clear conceptual basis
- Is insufficiently well-defined, so that users get lost in details or are unable to reach any depth, when the underlying meaning is not understood, or a shared understanding is missing
- Is provided with insufficient resources (people, time, money)
- Must manage without external assistance even when the internal know-how is missing.

The implementation of a risk-based management system requires valuable working time. It offers the prospect of high benefits. From this perspective, the time deployed may be seen as an investment in a powerful and agile company and its employees. An investment with a high payback!

Unless the management fails to apply it!

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