RiskWatch

Steps to Perform More Valuable Risk Assessments

Giving More Effort

While running through the motions and checking boxes may have worked for risk management in the past, today's climate demands more. Risks evolve, surge, and grow more complex as time goes on. Since the core value of risk management is to make more informed decisions that promote business growth, risk assessments must be treated with importance. Doing so requires thoroughly assessing risk related to resources, controls, regulations, and organizational goals.

Why You Need to Maximize Results

Board members often don't see the full value of risk management efforts and criticize the cost versus the perceived return. This leaves the risk management team in a position of needing to maximize the value of assessments.

From an outside perspective, risk management has become increasingly important as customers wield more power through media and information of your company can spread more quickly. Today's customers demand responsibility and any lack of effort on your part will be revealed were an incident to occur. As such, its crucial for assessments to clearly cover all risks and enable you to plan for each possible incident.

1.   Adopt a Root Cause Analysis Approach

Root cause analysis (RCA), simply put, is learning how and why an incident occurs so that you can prevent it. Using this method, you'll break the problem down into multiple parts, because like a root, it branches off into smaller roots and goes in different directions.

Many organizations naively use the phrase "root cause" to identify a single main cause rather than every different cause that contributed to the obvious problem. It's important to understand all of the pieces that contribute to a single risk or issue to fully address the vulnerability.

In a Proper Root Cause Analysis, You'll Follow Three Steps

Define

- Define the problem. Look at the impact it causes to your organization.

Analyze

- Analyze what contributes to the problem. Break the problem down into potential causes.

Solve

- Determine solutions. What can be done? Mitigate negative impact to your organization.
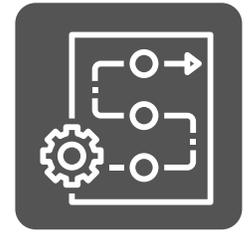
Root Cause Analysis Categories

Root cause categories help you to narrow your analysis and determine more specific causes. These are crucial to performing better risk assessments and understanding how to eliminate and mitigate risks.
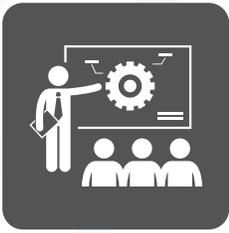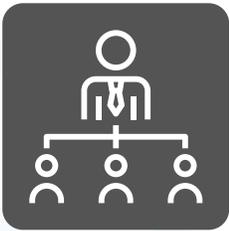
Training

Communication

Procedures

Management

Work Environment

Work Practices

Organizational Interfaces

Employees

Work Sites

2.   Standardize Risk Scoring

Once you've established how to identify risks and their causes, you must calculate a risk score for each area of concern. Many risk management teams rely on their own experience and intuition for scoring risks. This is problematic because without a standard model for risk scoring, teams will struggle to communicate on how to best allocate resources. Eliminating subjectivity as much as possible creates a clear and useful scoring system.

Risk Formula

(Threat Level + Criticality + Gap Score)

X

Consequence

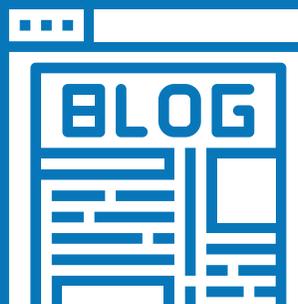|	
HIGH	**100**
MEDIUM HIGH	**80**
MEDIUM	**60**
MEDIUM LOW	**40**
LOW	**20**

Using a 0 -100 scale offers a familiar grading system that offers direct clarity between risks.Prioritizing tasks and distributing available resources then becomes clear, even between sites.

Read more on risk scoring here

3.   Link Risk to Controls

After scoring your risks, you have a well-defined plan for what order you will address them and link them to controls. Controls are measures put in place to reduce or eliminate risks. Linking risks to controls clearly defines mitigation tasks for your team and increases transparency when reviewing and sharing assessments.

Five Best Risk Assessment Control Measures

Elimination

- Elimination should always be the first control option considered. It's the best but not always practical.

Substitution

- Substitution removes the risk to replace it with a lower risk.For example, replacing use of a hazardous chemical with a safer one.

Engineering Controls

- Engineering controls are usually fixed temporary or permanent controls. For example, installing guard rails for fall hazards.

Administrative Controls

- Administrative controls are rules and systems to carry out work, such as not allowing work at heights during poor weather conditions.

PPE

- Personal protective equipment (PPE) gives a last level of added protection such as ear plugs or hard hats.

4.   Relate Risks to Strategic Goals

Beyond ranking risks, you need to be able to relate risks to your organization's goals. At this point, you have a list of risks and how they rank in terms of impact to your organization, as well as the root causes that contribute to the risk manifesting. This helps justify the need for risk management and puts it in a perspective that is easier for management to understand. Knowing how risks can jeopardize an organization's progress toward achieving critical objectives is key to prioritizing and reducing those negative impacts.

Strategy Map

Operating Segments ←→ Associate ←→ Strategic Goals

Assessments

Relate

Risk Profile

Risks
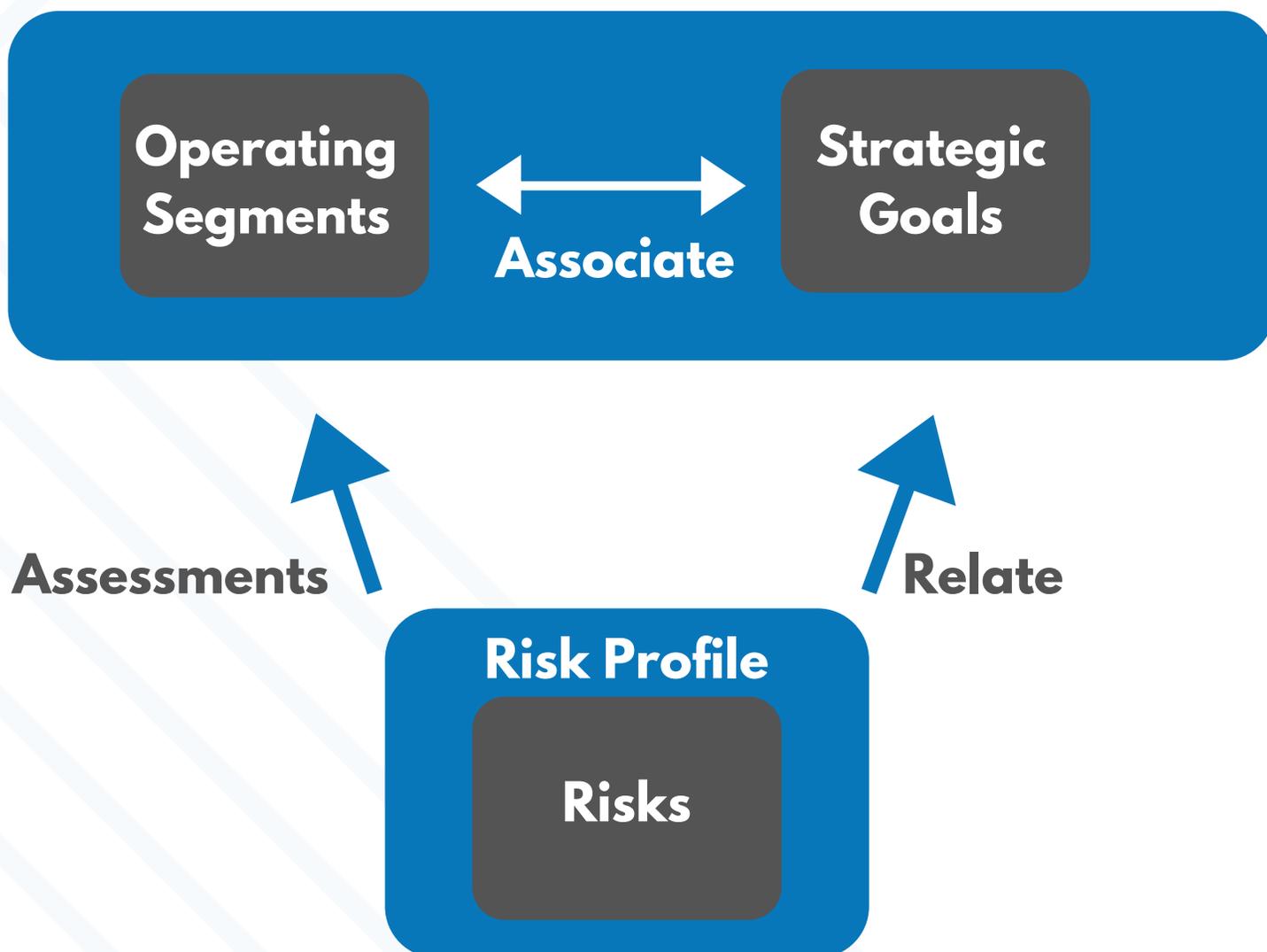
5.   Create a Culture of Risk Management

Ultimately, risk assessments are only valuable if they foster change. Simply reducing risk of an activity doesn't matter if that behavior returns or is not carried across all areas of activity. This is where its beneficial to create a culture of risk management.

Risk is present in everyone's job so it's vital to involve everyone with risk management. As processes and job activities change, explain why. Make sure the impact is clear and make it a positive impact. Teams love to see positive change and can feel the energy of a prospering work environment.

Awareness

Responsiveness

Risk Culture

Transparency

Respect