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RISK MANAGEMENT IN PRACTICE: LESSONS AND FINDINGS

SRA NORDIC CHAPTER
THE FUTURE OF RISK ANALYSIS IN THE NORDIC COUNTRIES

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Risk management: The paradigm

Systematic identification, evaluation and handling of risk through **formalisation** of concepts and methods, to achieve:

- Efficiency
- Accountability
- Clear objectives
- Reporting systems
- Criteria for evaluation

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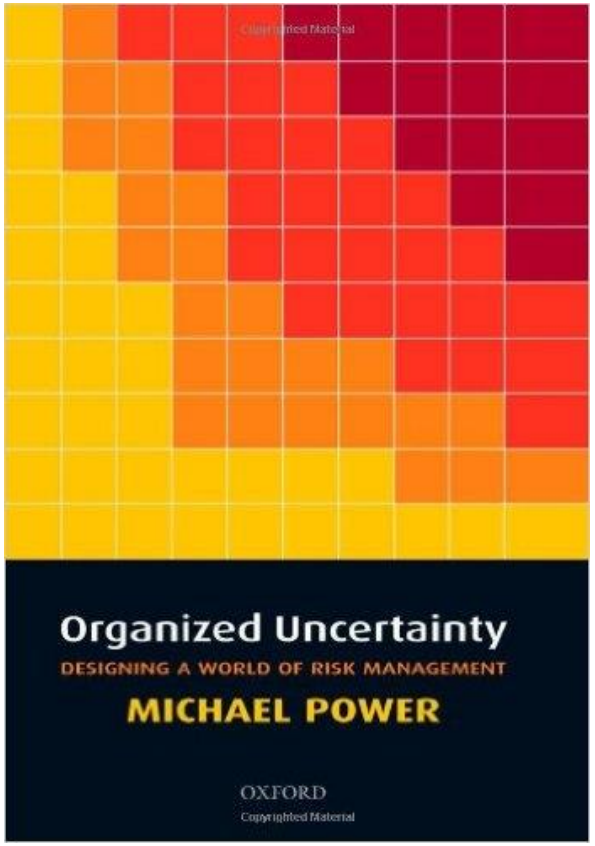
Standardization is key

- Expanding idiom of risk management
- Global trend
- Public and private sector
- Banks, companies, government agencies, NGOs
- Discourse about control, effectiveness and value production



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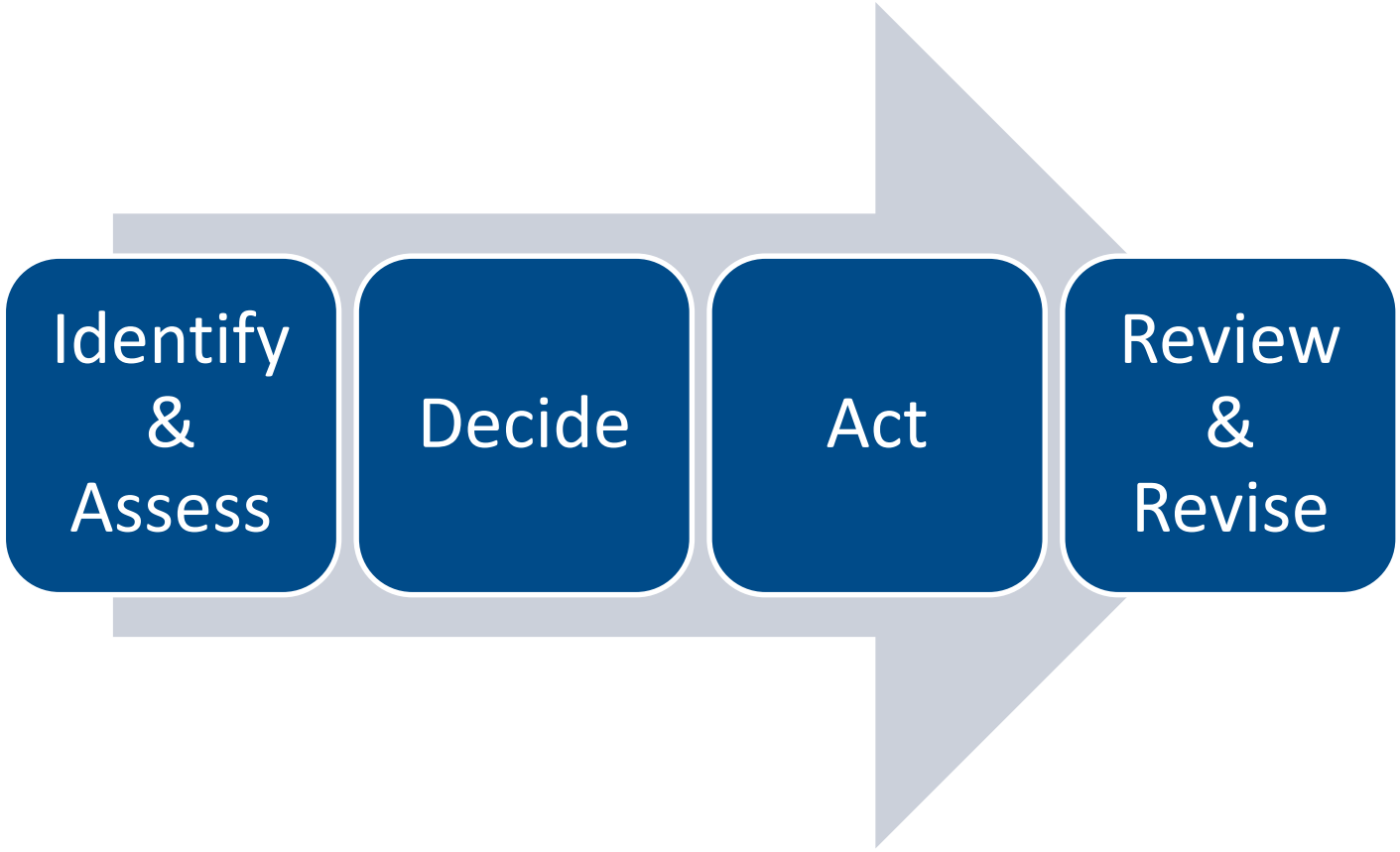
Rationalistic approach: linear decision logic

From facts and value to decision



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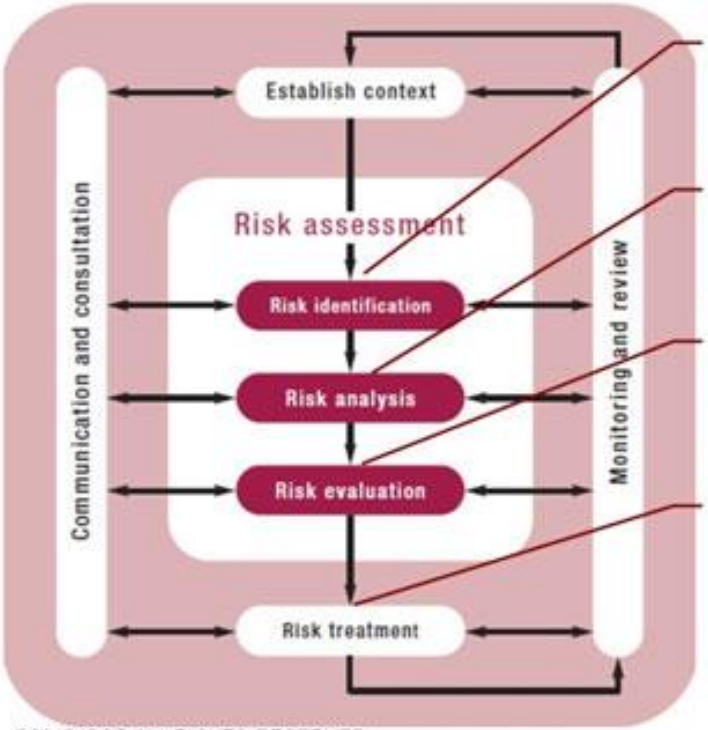
ISO 31000 Risk Management Process



What may happen and why?

What are the consequences?

What is the probability?

How to mitigate or reduce probability of the risk?

BCM 5000.1.1

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Problem and aim

- Growing international trend towards using standardized risk management tools and guidelines
- Assumption that formal approaches will make risk management decisions more effective
- But, studies of organizational practice show that risk and safety management is intuitive, experience based and reflexive taking into account complex goals
- Aim: To explore the relationship between formal risk management and risk management as practice

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The ”practical turn” in risk management studies

Risk mangement
= work!

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Risk management: a practical activity

- People do things! Or don’t….
- For a reason…..
- Have priorities…
- Limited resources and knowledge…
- Bounded rationality…
- Practical reasoning…
- In a social setting…

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Decisions are shaped by context

everyday routines

how things are normally done

what is usually expected

past experience

what makes sense

what is agreed

working conditions

organisational setting

other organisational actors

institutional environment

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Case study: rail way planning

- A 14 km double track railway line, part of a the Norway-Väner link (Western Sweden)
- Fieldwork March 2007 – September 2008
- Participant observation at planning meetings (23 meetings): internal project meetings (Rail Administration officials, consultants), reference group meetings and consultation meetings
- Documents (e.g. internal documents, minutes, official reports, handbooks)

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The risk assessment process

- Multi-expertise ”brain storming” group exercise to identify, characterise, calculate and evaluate risks
- Based on expert competence (technical, legal, environmental, organisational)
- Consequences considered: time, economy, trust, environment, working environment, technical quality
- First step of setting up a formal risk management plan

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Standard risk mapping procedure

Likelihood	Consequences				
	Insignificant *(Minor problem easily handled by normal day to day processes)*	**Minor** *(Some disruption possible, e.g. damage equal to $500k)*	**Moderate** *(Significant time/resources required, e.g. damage equal to $1million)*	**Major** *(Operations severely damaged, e.g. damage equal to $10 million)*	**Catastrophic** *(Business survival is at risk damage equal to $25 Million)*
Almost certain *(e.g. >90% chance)*	High	High	Extreme	Extreme	Extreme
Likely *(e.g. between 50% and 90% chance)*	Moderate	High	High	Extreme	Extreme
Moderate *(e.g. between 10% and 50% chance)*	Low	Moderate	High	Extreme	Extreme
Unlikely *(e.g. between 3% and 10% chance)*	Low	Low	Moderate	High	Extreme
Rare *(e.g. <3% chance)*	Low	Low	Moderate	High	High

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Risk assessment: Findings

- Internal perspective dominates: focus on risks endangering the project (costs, time delays, loss of trust, legal obstacles)
- Risk is approached “practically” by sorting potential events into those that can or cannot be controlled
- The formula R = P x C in use: equates consequence/probability plus control
- Risk calculation is a product of intuitive risk assessment rather than formal calculation of consequence and probability

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From risk assessment (RA) to risk management (RM): Findings

- Probabilities and consequences are sometimes even established **post hoc**, after the risk has been classified according to the red-yellow-green typology
- RA and RM merge (not separated as the formal model requires)
- RM directs RA – what can be mananged (or not) determines assessment

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Practical reasoning: Findings

- Practical experience of railway planning reigns over formal knowledge
- Planners' knowledge of risk derives from direct experience and from what they learn about other projects ("availability")
- Risk management has a narrative organizational dimension ("one case experience")
- Understandings of risk issues relevant to the project changes over time
- Bodies of expertise form coalitions, that can be strong or weak
- Expert knowledge without strong allies is marginalised

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Discussion point 1: Decoupling

- Standards must be translated and put into practice
- Lack of conformity between standard and work = decoupling
- Discrepancy between “saying” and “doing”, between the norm and reality
- An appearance of standardisation – but, in practice work does not conform to the standard

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Discussion point 2: Tensions

- Risk assessment promotes discussion across perspectives on risk
- But, formal risk management is silent on how to reach consensus, what perspective and what knowledge will count
- Consensus is reached by other means: power relations, relevance in communication, alliances between positions, planning priorities, organisational norms, external institutional factors et c.
- Friction between work efficiency (to get things done and move on) and participation (allowing many voices) – negative effect on trust and organisation morale?

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Conclusions

- Risk management is a social process
- Formalised risk management in practice produce tensions between formal (rule-bound, standardized and context independent) ordering of risk and informal (intuitive, practiced-based and context dependent) modes of work
- More attention to social dimensions of risk management as a way of work is needed

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A note on method

- Participant observation: long-term study of interaction at meetings
- Capture what people say that they do, and what they actually do
- Interview study, other results?