

# Risk Management – The Road To Resilience



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*For any organisation to achieve a state of resilience, it has to follow a systematic risk management process. This process needs to be outcomes-based and it needs to be integrated. However, the first step in the journey of risk management, is to understand what a risk is.*

THE SIMPLEST definition of risk is also the one that is the most descriptive. It reads as follows; "A Risk is an uncertain future event, the outcome of which may be negative or positive." Two things are immediately apparent from this definition. The first is that the current Covid-19 pandemic is not a risk. It is not 'uncertain', it is a current reality. Also, it is not in the future, we are living it now. However, the pandemic may give rise to a vast number of new risks.

The second item that is apparent from the definition, is that there is an upside to risk, the 'positive outcome' of the definition. A risk is not only a 'bad thing happening', it is also a 'good thing NOT happening'. A missed opportunity may be as much of a risk as your facility burning down.

The start of the risk management process is to determine what objectives this particular organisation's risk management process needs to achieve. The universal and overriding objective of the ideal risk management process would be to provide the Governing Body (Board) and the various levels of management of the organisation with complete, relevant, comprehensive and timely risk information to enable them to make proper 'Risk-Informed' decisions. These decisions inform:

- Strategy
- Strategic responses
- Avoiding disasters and losses, as well as optimizing opportunities
- Capital allocation
- Cost-effective risk financing

The next step is then to determine which outcomes are to be achieved. Not all organisations will necessarily want to achieve the same outcomes. There are a number of universal outcomes that the vast majority of organisations need to embrace to ensure that they apply the process of risk management logically and correctly.

The first outcome is a complete landscape of strategic risks and/or risks to the organisation's strategy. The principle is not to simply have a list of risks, or a risk register, but to view the risks in the form of landscapes, putting together what belongs together in terms of theme, of source, of area, and the like. The risk landscapes would encompass those risks that may prevent the organisation from achieving its strategic objectives, or that may act as stumbling blocks to make the achievement of these strategies difficult. It would also look at the risks that the achievement of one or more objectives may result in. Where applicable, the risk response

may be to actually change or abandon a particular strategy.

A risk landscape of high-level business risks is different from strategic risks. High-level business risks are those risks that an organisation cannot do anything about, but can merely react to. It would include items like the exchange rate, the fuel price, the economic situation in a particular area and the like. The manner in which the organisation reacts to the various high-level business risks, may determine whether it dies or continues. The Covid-19 pandemic is a prime example of a high-level business risk. The organisation and its board cannot do anything about or to the pandemic, it can merely react to it. The way that it reacts, will determine whether it survives and thrives, or whether it disappears.

A key risk outcome that is often overlooked nowadays, is a set of comprehensive risk landscapes of organisational or operational risks, the so-called 'pure' risks. It is those risks that have no upside or profit opportunity, but the best you can hope for is a loss (or profit) of zero. These risks are items like life-safety risks such as security, fire, workplace safety, emergency planning and similar risks. The best way to ensure this outcome, is to identify what is needed beforehand, and to measure deviations from this. This can be done in the form of a set of standards (like the well-known 'Organisational Resilience Standards' by GRIPP Advisory) where everyone knows well in advance what is expected of them and the risk identification is done by checking deviations from the standards. It enables the risk management staff to monitor performance, do comparisons and check progress (or not).

The next outcome is to have a complete set of risk responses to address the various risks that are part of the risk landscapes. People often mistakenly refer to the reaction to a risk as 'mitigation' or 'control'. This is but one of the variety of responses that can



be applied to address a risk. The response of control / mitigate / treat would be the physical actions that are taken to reduce or eliminate the impact or likelihood of a risk. Equally, the risk can be transferred to someone else, like with the transport of cash. The financial effects of a potential risk can be transferred to an insurance company. By doing proper risk assessment, certain risks can be avoided. Likewise, where

risks are shown to be outside of management's ability to deal with it, it can be terminated. Some risks are acceptable as they are and they can be tolerated. As we have seen, a risk is also a good thing not happening, therefore the risk, or opportunity, needs to be exploited / taken / embraced / optimized.

Although risk transfer is but one of the risk responses, it is also the one where the most money is involved. It is insurance premiums, consultants' fees, excesses and deductibles, commissions and brokerage. Then there is the question of losses, which may become claims in full, partially or not at all. When all the above-mentioned outcomes are achieved, the very important outcome of becoming a sought-after client for local and overseas insurers will be achieved. This will lead to the final outcome of achieving best in class insurance premiums and conditions.

None of the outcomes can be achieved and sustained on its own. The management of risk needs to be an integrated process, with each outcome dependent on the one coming before it. It needs to be planned in advance, implemented step by step and be maintained as a whole and completely integrated process.

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