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Understanding And Managing Risk - Help From ISO 31000 Risk Management Standard

by **Alex Dali**

Summary:

Risk management, as addressed in the ISO 31000 Risk Management Standard, provides a way of ensuring an advanced, more transparent decision-making technique.



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Each time a manager makes a decision, it involves risk management, consciously or not. Those decisions are informed by a multitude of sources, from reasoning or emotional processes, intuitive decision making or structured approaches, explicit assumptions or tacit assumptions, or using an embedded risk management methodology. Risk management, as addressed in the ISO 31000 Risk Management Standard, provides a way of ensuring an advanced, more transparent decision-making technique.

Typically the decision-making techniques people use in everyday life include:

- Pros and cons: Listing the advantages and disadvantages of each option, popularised by Plato and Benjamin Franklin;
- Simple prioritisation: Choosing the alternative with the highest probability-weighted utility for each alternative;
- Satisfying: using the first acceptable option found;
- Acquiesce to a person in authority or an "expert", just following orders;
- Flipism: Flipping a coin, cutting a deck of playing cards, and other random or coincidence methods; and/or,
- Prayer, tarot cards, astrology, augurs, revelation, or other forms of divination.

However, for those who wish to have greater control — and perhaps understanding — more rigour is needed. ISO 31000 enables a shift from compliance-driven risk management, to practising performance-driven risk management.

The standard provides an "umbrella" for more than 60 recognised standards and guidelines that refer to risk management (according to the European Committee for Standardisation — CEN). Despite being labeled as an ISO standard, it is purely a set of guidelines. There is no legal requirement for its application, and it is specifically not intended for certification.

It carries with it a globally-applicable risk management reference guide (ISO Guide 73 - Risk Management: Vocabulary) with a generic three-pillar architecture (including principles; framework; process), and a risk management terminology (tree-structure).

The principles address the issue of risk management purpose and objectives. The framework establishes the mandate and commitment at senior management and board levels. It also requires a description of the internal and external organisational contexts. The process describes the implementation of risk management at the business unit level for day-to-day activities of "risk assessment" and "risk treatment."

It can apply to any activity or domain in any organisation — public or private — and will supplement or replace a variety of independent, national risk management standards.

The Human Factor

Addressing human factors is at the core of risk management. Human factors are a vital and often overlooked element of daily risk management let alone crisis response and learning. From poor understanding of roles and responsibilities through to risky actions in working practices — the actions and assumptions of all levels of organisation need to be rehearsed, tested and reviewed.

Understanding and managing people is a key risk management competency. People are an organisation's greatest asset and yet they are often also the greatest liability.

How does ISO 31000 help? A consideration of human factors assisted by ISO 31000 should be incorporated into your risk management practice, as it is addressed in the 11 principles and in particular in the following principle related to human factor:

For risk management to be effective, an organization should at all levels comply with the principles below (...).

h) Risk management takes human and cultural factors into account.

Risk management recognizes the capabilities, perceptions and intentions of external and internal people that can facilitate or hinder achievement of the organization's objectives.

Extract from chapter 3.Principles _human and cultural factors - Link:

<http://goo.gl/o4a9o>

In other words, ISO 31000 Risk Management Standard recommends to make sure that your approach to risk management recognizes and considers the human and cultural factors that can influence the achievement of your organization's objectives:

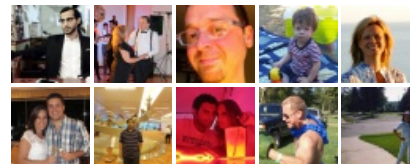
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- Consider how human capabilities can facilitate or hinder the achievement of your objectives.
- Consider how human perceptions can facilitate or hinder the achievement of your objectives.
- Consider how human intentions can facilitate or hinder the achievement of your objectives.
- Consider potential conflict of interest between people's personal objectives and organization's objectives.
- Consider potential conflict of interest between people involved in the achievement of your objectives.

As the call for a public debate on risk gathers momentum, tools like this will become increasingly important. The potential of ISO 31000 to contribute to this debate is significant in part because it provides the opportunity for continuous improvement through the iterative process and feedback loops / opportunities for "lessons learned" at each stage in the process. Furthermore it is a useful communication tool about both the organisational context and scope of risk management.

Alex Dali collaborated with the [British Safety Council](#) in writing this article.

In order to discuss the content of the ISO 31000 Risk Management Standard, you are invited to join the LinkedIn group on ISO31000 at the following short link: <http://goo.gl/QDjgv>



ABOUT THE AUTHOR

Alex Dali is managing partner of risk management consultancy Formascope specialising in practical applications of risk management for over 15 years. At the first international conference on the ISO 31000 standard, he was appointed President of [G31000](#), an international non-profit organisation for raising awareness on ISO 31000 standard.

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Key Takeaways

1. Each time a manager makes a decision, it involves risk management, consciously or not. Those decisions are informed by a multitude of sources, from reasoning or emotional processes, intuitive decision making or structured approaches, explicit assumptions or tacit assumptions, or using an embedded risk management methodology.
2. ISO 31000 enables a shift from compliance-driven risk management, to practising performance-driven risk management.
3. Understanding and managing people is a key risk management competency. People are an organisation's greatest asset and yet they are often also the greatest liability.
4. The potential of ISO 31000 to contribute to the debate about risk management is significant in part because it provides the opportunity for continuous improvement through the iterative process and feedback loops / opportunities for "lessons learned" at each stage in the process.

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