



Best Management Practice
For project, programme and risk management



Refreshing Management of Risk: Guidance for Practitioners

White Paper
May 2007

Written by Graham Williams of GSW Consultancy, M_o_R® author and Chief Examiner, the purpose of this white paper is to explain why the decision was made to refresh M_o_R and to describe the main changes and improvements that have been made to the guide.

Why has M_o_R been refreshed?

M_o_R was first published by the Office of Government Commerce (OGC) in 2002, “to help organisations put in place effective frameworks for taking informed decisions about risk”. This was largely in response to the publication of the Turnbull Report on Corporate Governance.

Since publication, M_o_R has received a great deal of positive feedback and the associated qualifications are starting to see a rise in demand. However, the world of risk management has not stood still during this period.

For example:

- In the UK public sector HM Treasury has revised its Orange Book. (This outlines the principles and concepts of risk management and formed the basis for the first edition of M_o_R.)
- In the private sector change has been instigated in the UK, across Europe and within the US by new regulatory environments driven for instance by:
 - Combined Code on Corporate Governance 2006 (UK)
 - Basel II Accord 2004 (Bank of International Settlements, Switzerland)
 - Sarbanes-Oxley 2002 (US).

Accordingly, it was felt that the time was right to undertake a thorough refresh of the guidance contained within M_o_R.

In 2006, OGC consulted with the risk management community, including risk experts, policy-makers and strategists, programme and project managers and

those who work in delivering the services and benefits to the business. A Reference Group and Review Group were established to provide input and direction from the public and private sectors from academia and the industry; and a small high calibre authoring team was established. The result of the collaboration of these three groups is the M_o_R 2007 edition which published in March.

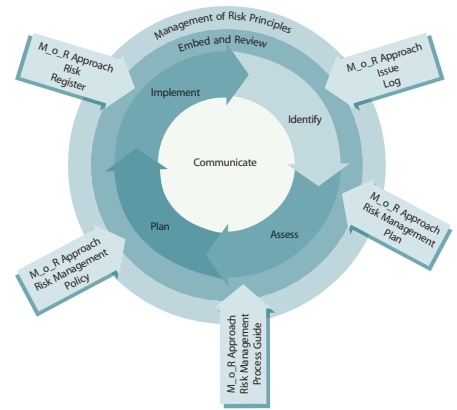
What are the main changes to M_o_R?

Before addressing this question, it is appropriate to explain that much of the framework of the original M_o_R has been retained, even though the new guide does look and feel very different.

For example:

- Risk management is still addressed from the point of view of it being one aspect of internal control, which itself is one aspect of corporate governance
- The need to “define a framework” within which risk management is to be undertaken is still a key message within the new guide
- Much of the guidance still revolves around the application of a risk management process which enables organisations to identify, assess and control risks
- The need to embed and review risk management is still seen as a key element of implementing an effective approach to risk management
- The guide still provides guidance on how risk management needs to be tailored to meet the needs of different organisational objectives, i.e. strategic, programme, project and operational
- There is still guidance on the use and application of a wide range of risk management techniques.

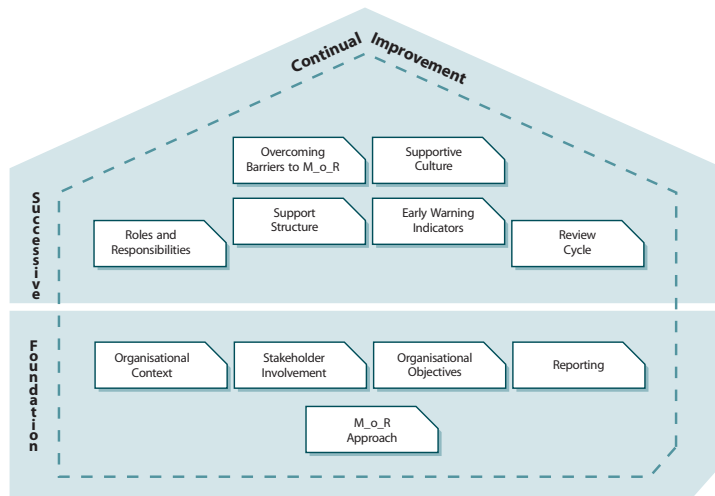
The main change has been to structure the guide around an M_o_R framework which is based on four core concepts:



- **M_o_R principles**
This chapter has been restructured around a set of 12 universal principles derived from corporate governance requirements
- **M_o_R approach**
A new chapter has been introduced which describes the risk management documentation and introduces and explains key risk management concepts
- **M_o_R process**
This has been aligned to that contained within the revised HM Treasury Orange Book
- **Embedding and reviewing M_o_R**
A complete chapter has been dedicated to address the embedding and reviewing of risk management.

Additional changes have been made by:

- Placing a far greater emphasis on risks as being either **threats** (downside risks) or **opportunities** (upside risks)
- Replacing the concept of organisational levels with organisational **perspectives**
- Consolidating information on risk management **techniques** into a single section and providing more guidance on each of these
- Restructuring the management of risk **Healthcheck** so that it reflects the 12 principles mentioned above



- Introducing the concept of an **M_o_R maturity model**
- Providing a consistent level of introductory information on **risk specialisms**.

How have these changes improved M_o_R?

Taking each one of these changes in turn:

M_o_R principles. The principles that were implicit in the previous guide have now been made explicit and guidance is given on how an organisation can introduce each of these to support the embedding of good risk management practices. The principles are:

- Organisational context
- Stakeholder involvement
- Organisational objectives
- M_o_R approach
- Reporting
- Roles and responsibilities
- Support structure
- Early warning indicators
- Review cycle
- Overcoming barriers to M_o_R
- Supportive culture
- Continual improvement.

The new guide considers these principles as being evolutionary in nature, and recognises that they cannot all be implemented simultaneously, i.e. some principles have to be in place before the remainder can be established. Some principles are considered to be foundational (having the greatest initial benefit) whilst others are successive (providing significant benefits but on a diminishing scale).

The diagram above provides one possible sequence in which these principles may be implemented.

M_o_R approach

The way in which the above principles are implemented will vary from organisation to organisation. Collectively, they provide a base on which risk management practices for an organisation can be developed. These practices describe how risk management will be undertaken throughout an organisation, i.e. the M_o_R approach.

The new title suggests that these practices are captured and communicated by creating a series of living documents, which are:

Risk Management Policy

To communicate **how** risk management will be implemented throughout an organisation

Risk Management Process Guide

To describe **what** steps, and their respective associated activities, are necessary to implement risk management

Risk Management Plans

To describe for a particular organisational activity the specific risk management activities that will be undertaken.

This set of documents replace the single 'Management of risk policy' referred to in the previous guide, which needed to be adjusted for each organisational activity.

In setting out the M_o_R approach, improved guidance is also provided on important risk management concepts such as:

- Risk appetite and capacity
- Risk tolerance thresholds
- Procedures for escalation
- Roles and responsibilities
- Assessing the probability, impact, expected value and proximity of risks
- Inherent risk versus residual risk.

The new title also goes further than before in considering categories of risk response. Whilst the previous version had its '4T's' (Transfer, Tolerate, Treat and Terminate) this new guide uses terms more widely accepted in the risk management field, namely:

- Reduction
- Removal
- Transfer
- Retention
- Share.

For the first time, it also introduces responses for opportunities, which are:

- Realisation
- Enhancement
- Exploitation.

The M_o_R approach also describes the use of **Risk Registers** and **Issue Logs**.

As part of the Risk Register, guidance is provided on creating a clear and unambiguous expression of risk by breaking down each risk description into:

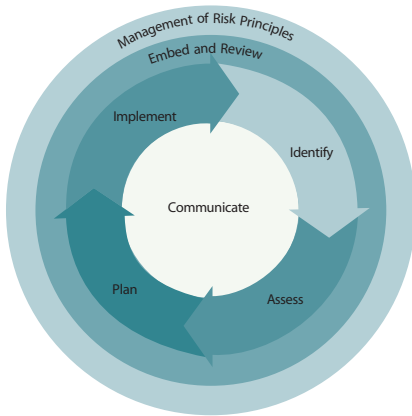
- Risk cause
- Risk event
- Risk effect.

M_o_R process

The previous nine step process has now been replaced with simpler but more coherent four step process consisting of the following steps:

- **Identify**
- **Assess**
- **Plan**
- **Implement.**

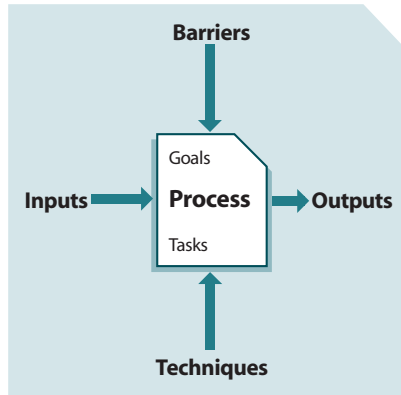
The steps are represented as a circle of arrows as it is common for the entire process to be completed several times in the lifecycle of an organisational activity:



In addition, each step is also iterative in nature in that when additional information becomes available, it is often necessary to revisit earlier steps and carry them out again, to achieve the most informative result. The explanation of each process step has been greatly improved by describing their own unique:

- **Process goals**, the key outcomes of the process
- **Process inputs**, the information that is transformed by the process
- **Process outputs**, the information produced by the process
- **Process barriers**, the possible restrictions that may hinder the completion of a process
- **Process techniques**, the recognised risk management techniques that may be used to support the completion of the process
- **Process tasks**, the actions completed to transform the inputs into outputs.

These are represented graphically as follows:



Embedding and reviewing M_o_R

In the first edition of M_o_R this topic was included as one of the nine process steps. In the new edition a whole chapter has been dedicated to this all embracing aspect of risk management.

The chapter addresses important issues such as:

- Measuring the benefits and success
- Key success factors
- Senior management commitment and support
- Building and developing awareness
- Identifying and establishing opportunities for change
- Modifying behaviour towards risk management
- Roles and responsibilities.

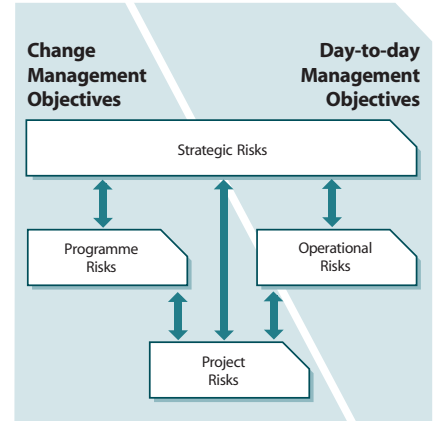
Threats and Opportunities

Whilst the previous version of M_o_R contained a definition of risk which referred to “positive opportunity or negative threat” this theme was not consistently applied throughout the guide.

Throughout the new edition equal weight is given to both threats and opportunities.

Perspectives

Rather than describing organisational levels within a hierarchy from strategic, through to programme, project and down to operational, the new edition of M_o_R considered these as four inter-related perspectives within their organisational context:



The guide also recognises that within any organisation, the various contexts will lie somewhere on a continuum between:

- Managing the status quo through **day-to-day management** of the organisation’s product or service delivery, and
- Establishing the future direction for the organisation and moving forward by means of **change management**.

Improved guidance is also provided on the way in which the M_o_R principles, approach and processes need to be applied differently according to the nature of the context within which they are being undertaken.

Techniques

One of the greatest criticisms of the first edition was that it listed many techniques but actually described very few, and that the techniques that were included were fragmented across two different sections. In the new edition all of the techniques are presented in one section (within which they are ordered to reflect where within the process steps they are most likely to be used), and are described well enough for people to understand and apply them.

M_o_R Healthcheck

By restructuring the Healthcheck to reflect the M_o_R principles, organisations are better able to check the health of current risk management practices in terms of supporting corporate governance, and identify areas where their application might be improved.

M_o_R Maturity Model

A brand new section has been provided to introduce the subject of maturity models, their use, composition and benefits.

Maturity models are a valuable tool in enabling organisations to benchmark their current risk management capability and maturity and in understanding how and when improvement may be achieved.

Risk specialisms

The separate annexes within the first edition have been consolidated into one section that provides introductions to the main areas of risk specialism and directs the reader to more detailed information on these specialisms.

The specialisms covered are:

- Business continuity management
- Incident (crisis) management
- Health and safety
- Security
- Financial risk management.

Conclusions

A great deal of effort has gone into this refresh with a view to enhancing the guidance given, bringing it up to date with current best practice, and making it more accessible; whilst at the same time maintaining the strengths of the previous guide.

Has this been achieved?

Well, as Peter Fanning (Deputy Chief Executive Officer, OGC) states in his foreword: "This guide provides an accessible framework for taking informed decisions on managing risk throughout the organisation, from designing policy and strategy to dealing with threats and opportunities in your day to day operations and services"

Acknowledgements

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