Today’s Business Uncertainties Are Driving Risk Beyond the Control of Every Business. Best Practice in Risk Management Can Mitigate these Threats
More and more businesses are reporting that they face an ever-increasing range of risks and are unsure how to overcome them. Marketplace disruption, globalized supply chains, regulatory uncertainty and intensifying competition are all contributing to a volatile and unpredictable business environment where risks are difficult to identify and mitigate. Managing risk is becoming a key strategic issue, where those businesses that can successfully combat both current and emerging risks will develop a significant advantage over their competitors.

A recent survey by Deloitte/Forbes revealed that reputational risk was a key concern for the 300 global executives polled. While most felt that their current reputation was strong, only 19% believed they had sufficient ability or capacity to manage the risks of emerging threats. Respondents cited fraud and corruption, security risks (physical and cyber) and product and service risks as the main drivers of reputational risks. Yet their greatest concern was over risks they had classed as outside their control:

- Competitive attacks
- Catastrophic events.

Businesses recognize the need for early identification of potential events impacting their reputation. Tackling a threat as it occurs is not effective in our always-on, inter-connected age. As a result, businesses are investing in tools and processes allow a proactive approach to risk, such as scenario planning, predictive and analytical tools and brand-monitoring tools.

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73% of CCOs ranked third-party compliance risk management as the most challenging concern they face.

32% of respondents ranked ensuring safety and health policies, codes and goals are used throughout supply chains as seriously problematic.

As supply chains grow more complex in the global economy, risks have multiplied while becoming harder to overcome. In a 2015 Deloitte survey, 73% of Chief Compliance Officers (CCO) ranked third-party compliance risk management as the most challenging concern they face, while 32% of respondents to the State of the EHS Nation 2015 Survey ranked ensuring safety and health policies, codes and goals are used throughout supply chains as seriously problematic.

The Deloitte survey indicated that CCOs are employing a range of tactics to manage these risks more effectively:

- 42% say they always audit compliance with policies or regulations
- 38% always perform extensive background checks
- 32% always require training or certification.

Yet as many 44% of respondents to the Deloitte survey cited above described supply chain risks as beyond their control and lacked confidence in addressing them.

The key to overcoming these problems is to apply risk-based thinking to supplier management. Risk management can improve supplier onboarding, selection and review. Risk-based metrics can be used to assess supplier performance, viability and vision alignment, and select and monitor suppliers in the network effectively, based on a risk ranking.
Now that the UK has voted to leave the European Union, there is great uncertainty around how regulations will apply in the future. Every industry is affected because EU Regulations apply directly to UK legislation, and EU directives mandate the UK to introduce legislation to bring in their provisions.

Environmental Health and Safety (EHS) is of particular concern, as so many UK regulations exist as a result of EU influence. As Richard Clarke, Senior EHS consultant at Cedric has observed, many UK Statutory Instruments exist because a EU Directive obliged the UK government to introduce domestic legislation. For example, the Energy Efficiency Directive has so far resulted in 28 individual UK Regulations, including the currently relevant ESOS requirements.

It is uncertain that such regulations would remain in force following Brexit, given that the decision to leave was heavily influenced by the desire reduce EU regulatory burdens on business. In areas where the UK has ceded its authority to the EU, such as the working environment to protect workers’ health and safety, it is difficult to predict how that transfer of authority will be reversed and what effect that will have on the standards expected in those working environments that were in line with those of the EU. Businesses are now facing the complexity and the increased risk of a regulatory environment that might no longer be harmonized with the EU, the UK’s biggest trading partner.
The current business environment, regardless of industry, is characterized by constant change and increasing complexity. Consumer and competitive pressures, continuous innovation, globalized supply chains, regulatory changes coupled with increased oversight and evolving criminal threats, are all key factors – introducing an ever-growing range of risks to safety, compliance and quality.

Tactical approaches to risk, where businesses react to problems after they occur, are no longer effective on their own. They cannot address the multiplying unknown risks produced by such volatile conditions. In our fast-paced, complex environment, problems can escalate and spread quickly. Being unaware of the hazards involved in the business heightens risk even more, increasing the potential for serious disruption, hefty fines and irreparable damage to reputation.

Instead, businesses need to take a strategic approach to risk, with a robust risk management system that helps to:

- Identify risks
- Categorize risk across the organization
- Establish processes for reducing and preventing risk
- Give the organization an objective, quantifiable means of assessing its overall level of risk.
The first step in developing your risk management system is establishing a common definition of risk throughout your organization. The terms hazard and risk are often used interchangeably, but they mean different things. A hazard is a condition or situation that creates the opportunity for a problem to occur – a potential rather than a possibility. Risk is the likelihood that the hazard will lead to that negative consequence. Some hazards pose no risk, if there is no probability of exposure to that hazard.

Risk management is knowing what those hazards are and estimating the probability of each one manifesting itself.

Risk is pervasive throughout all areas of an organization, from Quality and EHS, to IT and the supply chain. The problem is that people’s assessment of risk and approach to managing it are dependent on how they experience it. Compliance will focus on regulation, IT on cybersecurity, Quality on eliminating human error. The result is a series of subjective judgments and internal silos managing multiple risks, which though different, are all related. With little or no communication between the groups or an integrated methodology to holistically manage the risk, the business is left exposed.

Risk management provides a unified understanding and universal methodology for addressing these varying factors. Begin by bringing all your key risk people together to look at all your areas of risk and explore all the factors affecting risk. Cutting across departmental boundaries to understand how various risks interrelate will help you develop a system to identify, assess and judge the collective effect they have on the organization’s overall level of risk. This is how you move towards strategic risk management.

Next, determine how to quantify those risks in a systematic and objective way. Severity and probability are useful scales. Then, implement a process for evaluating and assessing the risk, using Risk Assessment tools, such as the Risk Matrix or Bowtie Risk.
The Risk Matrix is designed to help you calculate risk across various outcomes, which then gives you clear guidelines on whether that risk is acceptable or unacceptable. It defines risk as the probability of a hazard occurring multiplied by its impact. It plots five levels of severity against five levels of frequency in a color-coded chart to show overall risk for different situations, like so:

<table>
<thead>
<tr>
<th>FREQUENT (5)</th>
<th>PROBABLE (4)</th>
<th>OCCASIONAL (3)</th>
<th>REMOTE (2)</th>
<th>IMPROBABLE (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>MINOR (1)</td>
<td>NEGLIGIBLE (2)</td>
<td>MARGINAL (3)</td>
<td>CRITICAL (4)</td>
<td>CATASTROPHIC (5)</td>
</tr>
</tbody>
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The quantified risk falls into one of three zones:

- **Low risk that's considered acceptable (green)**
- **High risk that's considered unacceptable (red)**
- **Moderate risk which may or may not be acceptable (yellow)**

Using a cost/benefit calculation is an effective way of deciding whether a risk is acceptable or not. Be sure to vet the matrix using real-world examples drawn from historical data so that you can be confident it fits the context of your actual operations.
Bowtie Risk is a proactive risk assessment tool. It helps overcome situations where the business has very little data on the potential of a critical event that may have catastrophic consequences. The tool constructs a scenario where such an event might occur, then puts preventative controls in place to mitigate the risk of it happening. It also plans recovery controls to minimize impact, should the event actually occur.

An example could be fire safety in a storage facility, where the undesired event would be a fire that is out of control. You would first consider potential threats that could lead to this outcome – for example, smoking, poor storage of packaging waste, poor storage of flammable materials or bad maintenance of electrical points. Then you would introduce controls to block those threats and reduce the risk of them occurring. If, despite this, a fire does break out, you would have recovery controls in place to prevent it becoming catastrophic – fire alarms, fire extinguishers, a sprinkler system or a fire marshal. So even if the event still occurred, there would be barriers in place to make sure the risk were minimized.
These risk assessment tools on their own are not the solutions to managing risk. They are there to support decision making by reducing subjectivity, standardizing responses and providing quantitative justification for them. For true effectiveness, you need people on the other end interpreting the results. They know the business, understand the hazards and can help determine how to make risk work for your organization.

A good approach is to assemble a ‘Risk Team’ drawn from across the functions of your organization to review the different risk outcomes and determine how you’re going to handle different risk levels. Responses typically include:

- **Acceptance**
  - Leave it if it’s worth the risk

- **Reduction**
  - Take steps to mitigate the risk

- **Compensation**
  - Take steps to insure yourself against the risk

- **Transfer**
  - Outsource the risk to a partner/supplier

- **Avoidance**
  - Stop the process altogether.
Once you have determined how you are going to treat risk, you need take action on managing it. You can introduce improvement activities that support managing risk, manage changes to your processes and operations and implement controls to mitigate or reduce risk. This is where risk management streamlines your Quality, Compliance and EHS processes.

Take Corrective And Preventative Actions (CAPA) for example. With a risk-based approach to your QMS, you can identify critical events, mitigate the risk and prevent re-occurrence of these events. Once a complaint is escalated to the Quality department, the team determines its risk criteria (severity, frequency) and then uses the Risk Matrix to determine the corresponding actions. If the risk is intolerable, then a CAPA is generated with an action plan to determine the root cause and any corrective actions. Since the CAPA process itself is directly tied to the risk level, a second risk assessment is carried out to measure risk mitigation as a result of the corrective action. Once again, the severity and frequency of the action are determined to ensure that it is within acceptable risk tolerances. If it is, then the event is considered to be corrected. If not, then it is sent back to the beginning of the CAPA process and reworked until it is corrected within business's risk tolerance and quality standards.
In today’s volatile business environment, risks can be difficult to identify but their damage can quickly escalate, seriously threatening competitiveness, profitability and reputation.

Post-Brexit uncertainty, increasing consumer power and supply chain risks are critical threats that many food and drinks businesses struggle to mitigate.

Risk management, where a strategic approach is taken to risk in order to reduce and prevent risk across the organization, provides a solution.

The Risk Matrix and Bowtie Risk are two powerful Risk Assessment tools underpinning the risk management process.

Use risk management to streamline your Quality, Compliance and EHS management systems and improve the overall performance of your business.
Enterprise Quality Management – How Systems Can Break Down Silos

Face Off the Risks of Quality Silos with Software Solutions Expressly Designed to Bring Stakeholders Closer Together

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