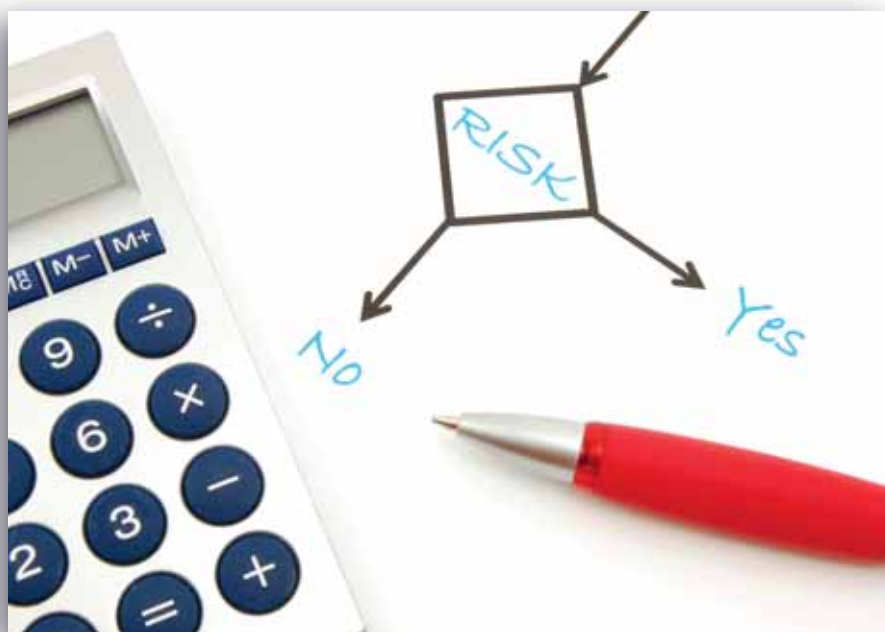


The New Language of Risk: What You Should Know about Enterprise Risk Management

Enterprise risk management is the new paradigm for managing risk in school districts.

By Dorothy Gjerdrum, ARM, CIRM



organization. It is grounded in the value that risk management can bring to an organization—whether public or private, small or large. And the standard recognizes that risk can be good and bad—which acknowledges that when we are aware and ready, risks are worth taking. That is good news for public school administrators and business officials in this ever-expanding world of risk in which we operate.

School personnel manage risk all day long, whether or not they realize it.

Although no newspaper headlines, parades, or tweets announced its arrival in November 2009, the paradigm for how we manage risk changed. This change was more than five years in the making, and experts from around the world contributed to its creation, including an advisory group from the United States.

The International Organization for Standardization (ISO) published the international standard on the practice of risk management (ISO

31000) along with two companions: a definitions guide (ISO Guide 73) and guidance on the assessment of risk (ISO 31010). The American National Standards Institute immediately adopted ISO 31000 as the American standard on risk management. The new language of risk, and how to implement an enterprise-wide approach to risk management, are described in that standard and outlined here for your consideration.

The ISO framework provides an accessible and practical approach to managing risk broadly across an

School personnel manage risk all day long, whether or not they realize it. The enormity of the challenge is driven home when we bear witness to a school shooting, a catastrophic weather event, or a sleepy van driver who rolls off a highway. But our schools are also challenged by ordinary, daily threats, such as workplace injuries, bullying, and vandalism. If we don't understand the importance of managing *all* risks, we can get caught up in reacting to the most scandalous or highly publicized risks at the expense of the frequent and common. And if

everyone is not engaged in managing risk, we may overlook risks that are known but not effectively communicated (think of sexual misconduct cases, where someone *always* knows—or should have known).

We also need to think about risks beyond insurable risks. People can get caught in the trap of thinking: “I don’t have to worry about that. That’s what insurance is for.” When questioned, insurance companies estimate that only 20%–30% of all risk exposures are insurable. The ways we treat and manage risk need to go well beyond an insurance solution.

We are also increasingly subject to global risks, no matter where we live. Recent events have raised our awareness of our global interconnectedness for risks, such as pandemic flu, cyberattacks, and economy and supply chain risks. Now more than ever, we need everyone to increase their *risk awareness*.

National Guidance on Implementing ISO 31000: 2009, from the National Standards Authority of Ireland states, “The purpose of managing risk is to increase the likelihood of an organization achieving its objectives by being in a position to manage threats and adverse situations *and* being ready to take advantage of opportunities that may arise.” To translate that for school operations: school business officials need to know the new paradigm for managing risk in order to support the achievement of the district’s objectives by managing potential threats and taking appropriate risks.

The ISO standard defines *risk* as the “effect of uncertainty” on an organization’s objectives. Every school district has objectives; they are your highest expression of intent and purpose. The world holds a lot of uncertainty; it results from unknown conditions, causes, and sources that are often beyond our direct control. When that uncertainty affects your district’s ability

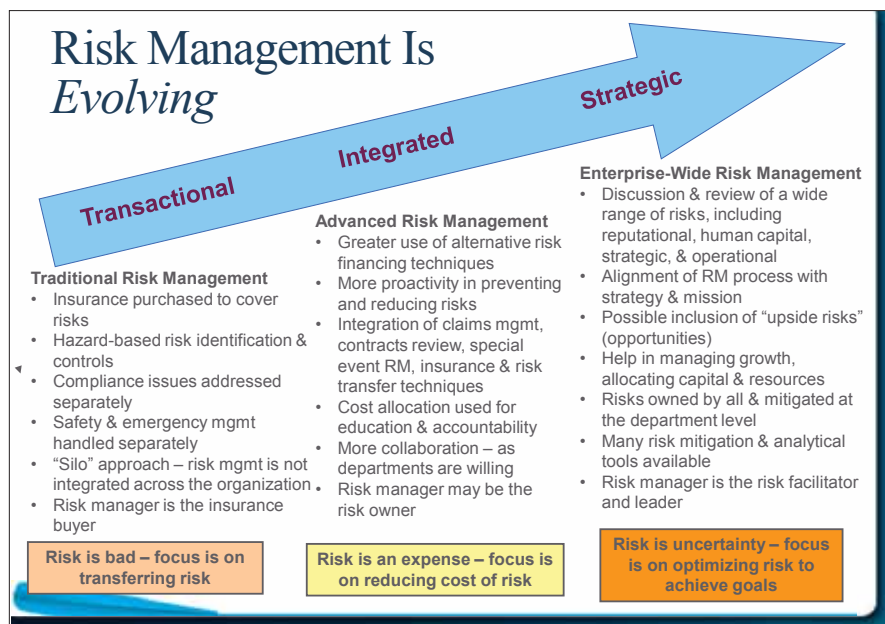


Figure 1. The Evolving Risk-Management Process (© 2012 Arthur J. Gallagher & Co.)

to achieve its objectives, that uncertainty becomes “risk.”

Risk is anything that could harm, prevent, delay, or *enhance* your ability to achieve your objectives. Stated another way, risk is *not* just an event, consequence, likelihood, vulnerability, hazard, threat, or opportunity, but rather the *effect* of those upon your objectives. A tornado is a hazard that creates risk if we are not ready to respond to the tornado’s effect on our operations (assuming that continuing operations safely is a key objective). The standard also recognizes that sometimes “taking a risk” is appropriate, and the standard provides a framework and process that supports the opportunities inherent in taking risks.

The Evolution of Risk Management

Figure 1 highlights the evolution of how we manage risk in the United States. The practice of risk management has been expanding over the last few decades; the ISO standard helps us move that practice to a more strategic approach. The risk management structure of 10 and 20 years ago is not as effective

or forward thinking. Risk is not always bad; it is not fully addressed through the purchase of insurance.

Far too often, risks have been managed in “silos” with workers’ compensation, emergency planning, and insurance purchase each led by separate people within the organization, with little overlap or cross coordination. ISO 31000 outlines a broader approach to risk, and one that engages people at all levels of an organization, working within a common *framework* (Figure 2).

The *principles* describe *why* we manage risk and how it will contribute value to an operation. For schools that have adopted the ISO model, the principles also provide aspiration and benchmarks against which to compare risk management practices.

The *framework* of the ISO model begins with a high-level commitment to the process. Often, that is expressed through a policy, mandate, or statement by a leader (superintendent or the board) about the importance of managing risk.

The framework also includes discussion of the internal and external context of operations, so that an

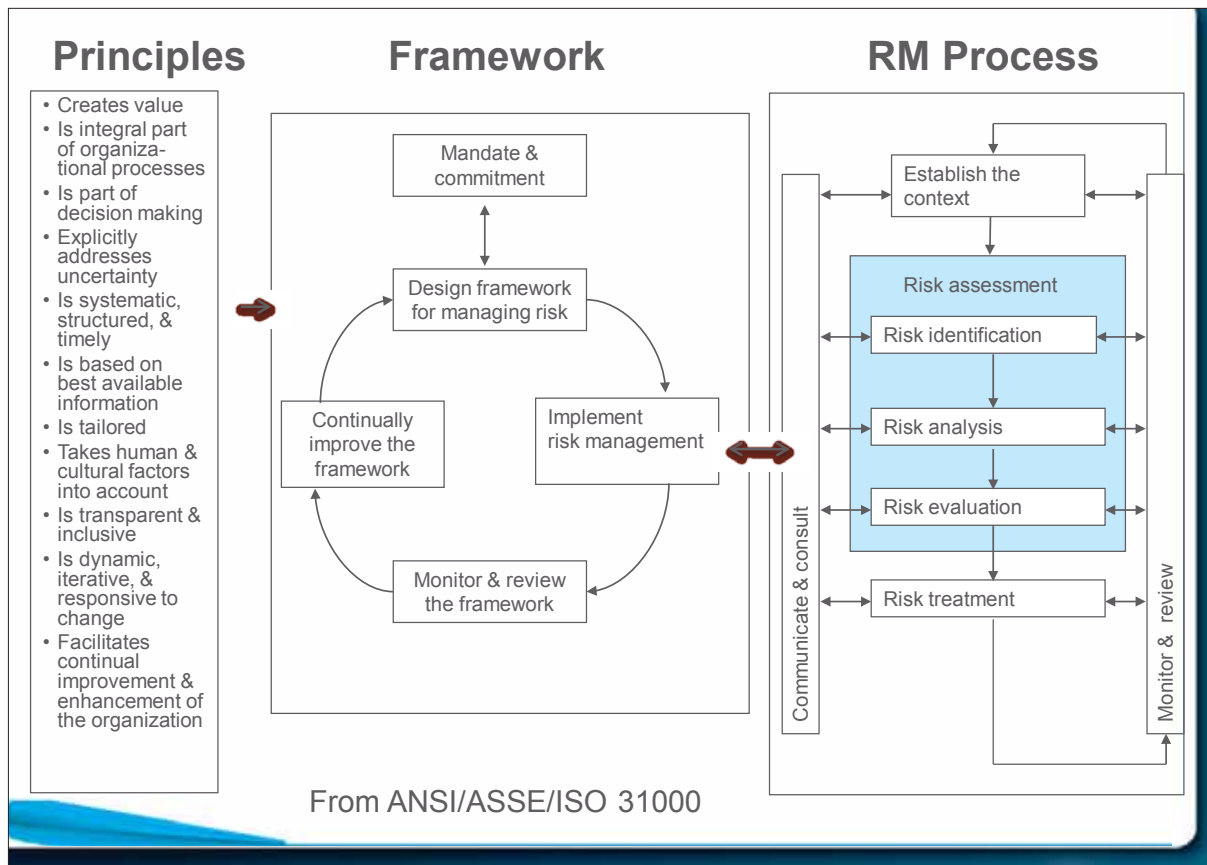


Figure 2. A broad approach to risk. (© 2012 Arthur J. Gallagher & Co.)

organization’s risk management program will be tailored to fit. There needs to be a plan to implement and coordinate risk management activities; often, that is initiated with a comprehensive inventory of how risk is currently managed across the district (that is especially helpful for identifying turfs and silos). The framework is essentially a continual improvement model that can help a district plan, monitor and review, and continually improve how risk is managed.

The *risk management process* is applied over and over to groups of risks, individual projects, opportunities, and areas of operation. To identify, analyze, evaluate, and treat risks, the standard recognizes that we need to engage stakeholders and risk owners. We need stakeholders to help us identify risks, consider the context of our operations, and understand why and how we are managing key risks.

Stakeholders are people who are affected by (or perceive themselves to be affected by) decisions and activities. Stakeholders are internal and external to the organization. Internal stakeholders include employees, students, school board members and possibly service providers (if they are closely tied with district operations). Examples of external stakeholders include parents, the community at large, local businesses, external vendors, colleges and universities, legislators and regulators.

Some schools use a panel of risk experts that include external stakeholders to stay on top of emerging risks and trends. Other organizations consult with stakeholders whenever new programs or initiatives are considered as a way to build support and to better understand the external context of operations. The standard expects that stakeholders will be engaged appropriately in order to expand understanding and to support effective implementation.

We need stakeholders to help us identify risks.

After engaging in a process to assess risks, ISO 31000 directs us to identify and support risk owners to treat those risks. Risk owners are people who have the accountability and authority to manage a risk; they are internal employees and leaders. Every organization should have multiple risk owners, each having his or her own area of expertise and control over risks.

Effective communication and monitoring and review of your key risks are built into each step of the process. One key aspect of communication is to state clearly the purpose of managing risk. One U.S. school district describes the key concepts of enterprise risk management this way:

- To manage risk more effectively to support opportunities
- To identify, assess, and prepare for what could go wrong
- To focus on what is most important to the district and its stakeholders—and link key risks to business objectives and strategies, and
- To ensure that risk management applies to all levels of operation, decision making, and activities.

Although we have been slower to adopt it in the United States, many other countries have rushed to implement the ISO standard on risk management. We can look to the Canadian Standards Association for an excellent implementation guide and training on ISO 31000. In addition, the international experts who drafted the original standard have just completed an implementation guide, ISO 31004, which will be published sometime in the next year. In the meantime, if you'd like a copy of ISO 31000, you can purchase it online from the American Society of Safety Engineers (www.asse.org/shonline/products/ez690-pkg.php).

Everyone in every school district manages risk every day. If we didn't, we would never cross a street, drive a bus, play sports, or teach students. Making the management of risk *explicit, consistent, and more effective* is the goal of enterprise risk management. It is the new

paradigm for managing risk for the betterment of everyone involved in public education.

Dorothy Gjerdrum, ARM, CIRM, leads the Public Sector practice group at Arthur J. Gallagher & Co. She is a frequent speaker at national and international conferences, including the ASBO Annual Meeting and Expo. Email: Dorothy_Gjerdrum@ajg.com

Index of Advertisers

AIS	19
American Fidelity Assurance Co	13
AXA Equitable	3
Cenergistic	inside front cover
CPI Qualified Plan Consultants, Inc.	18
DecisionInsite, LLC	14
Diestech Controls Inc.....	inside back cover
Horace Mann Insurance Co.....	back cover
Lowe's Companies	31
Metlife Resources	5
Siemens Industry, Inc.....	28
Sungard K-12 Education.....	15
Transfinder	24
U.S. Communities	34
VALIC.....	1
Virco Mfg Corp.....	11
Weidenhammer	27
Works International Inc.....	29

Good Partners Help You Make Your Next Move

With an abundance of resources and knowledge, a good partner is always positioned to help you plan your next move. **ASBO International's Corporate Partners** provide the industry expertise you need to make the best decisions for your district.



asbointl.org/CorporatePartners

Strategic Partners

Event Partners