



Using Executive Limitations to Manage Risk

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Oliver

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Our Purpose

- To understand common approaches to risk management at board and executive level.
- To understand how board level risk management can best be accomplished through Executive Limitations.



Workshop Outline

1.30 Introductions

1.40 Traditional approaches to risk management using example of health sectors in UK, Australia, New Zealand, Singapore etc – Stuart Emslie

2.00 Critiquing traditional approaches – Caroline Oliver

2.15 Tackling Risk Management using Policy Governance – Ray Tooley

2.30 Break

3.00 Tackling Risk Management using Policy Governance – continued

3.30 Discussion

4.00 Close



Introductions

- Your name and where you are from
- Your interest in risk management
- We will introduce ourselves as we go



International risk management standards & application in healthcare

Stuart Emslie

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Assistant Director, London Centre for Corporate Governance and Ethics,
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Formerly Department of Health Head of Controls Assurance for the NHS in England



LONDON CENTRE FOR
CORPORATE GOVERNANCE
AND ETHICS

UK Policy Governance®
Association

 Loughborough
University



Risk Management: an integral component of corporate governance and good management ¹⁾

By Kevin Knight, Chairman, ISO Technical Management Board working group on Risk Management Terminology

Guide 73, Risk Management – Vocabulary – Guidelines for use in Standards, provides members of ISO and IEC and governmental and non-governmental agencies involved in standardization at international, regional and national levels with a set of basic definitions and terms relating to risk management. A major feature of the process has been the wide consultation with interested parties throughout the world as part of the development of the Guide.

The Great Hanshin Earthquake in Kobe, Japan, in January 1995.

June 27 2002 will go down as a significant milestone in the advancement of risk management as it saw the publication of ISO/IEC Guide 73, *Risk Management Vocabulary Guidelines for use in standards*.

The need for some form of guidance on the application of risk management within standards has been recognized for some time given the fact that over 60 separate ISO or IEC technical committees and working groups have been addressing the question of risk management in some form or other. Guide 73 at last provides a common foundation for the inclusion of risk management into International Standards in much the same way as ISO/IEC Guide 51 addresses Safety.



¹⁾ The above article does not represent an official ISO position on this topic, but a contribution to a debate by an expert who has been involved all along in the development of ISO/IEC Guide 73.



Risk management standards or guidelines

- Australia/New Zealand - AS/NZS 4360
- Britain - BS 31100
- Canada - CAN/CSA-Q850
- Japan - JIS Q 2001
- *ISO/IEC Guide 73 - Risk Management Vocabulary Guidelines for use in standards*



Risk

“the chance of something happening that will have an impact on objectives”

AS/NZS 4360:2004



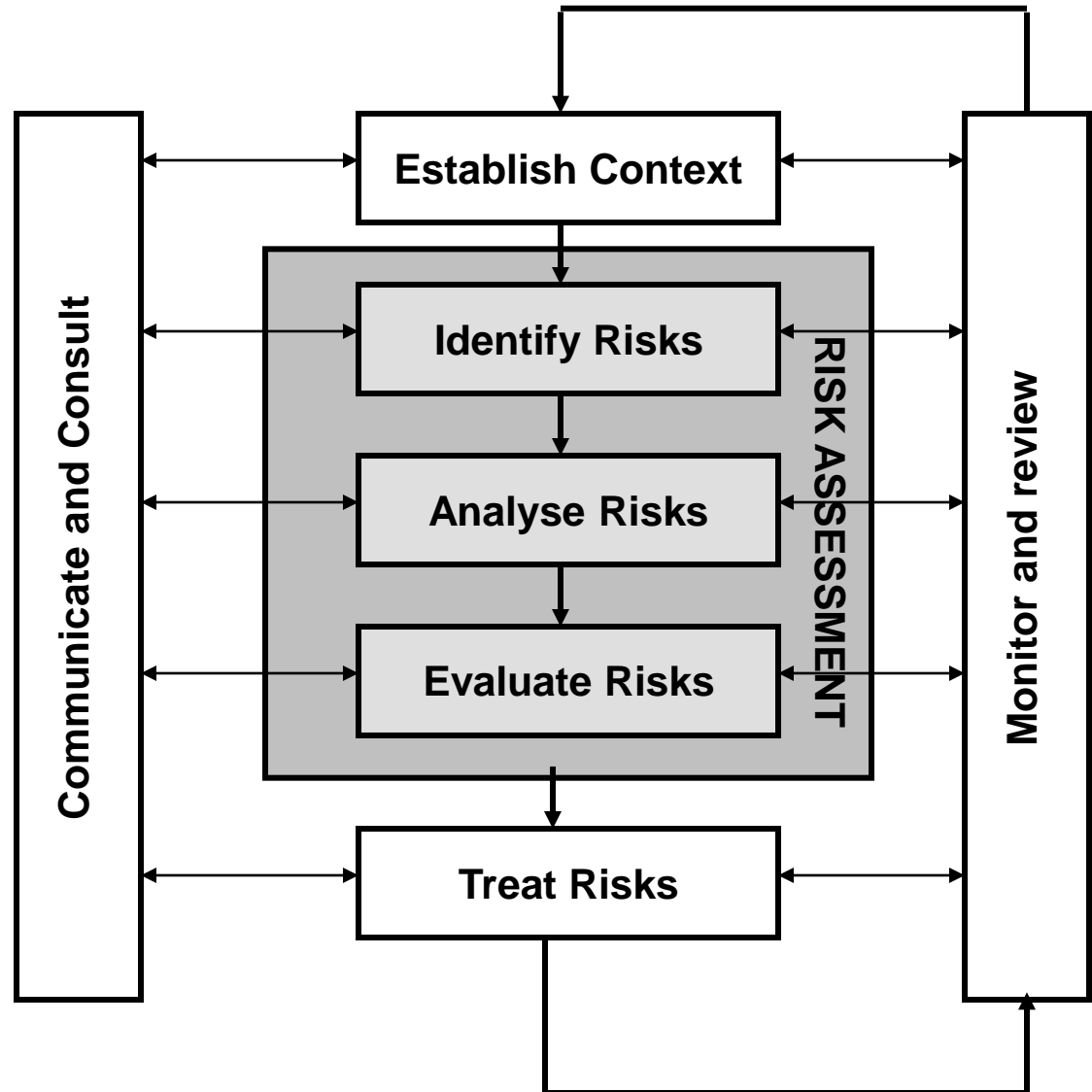
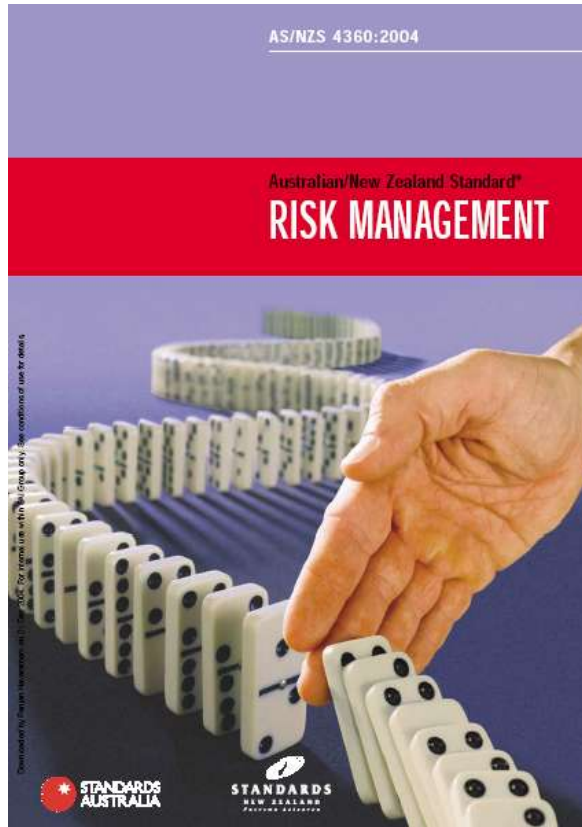
Risk management

“the culture, processes and structures that are directed towards realizing potential opportunities whilst managing adverse effects”

AS/NZS 4360:2004

Risk management process

AS/NZS 4360:2004 - Risk management



A common risk language

Environment risk

Government funding / policy . Laws and Regulations . Economy . Demographics . Technology . Market share . Other providers . Customer needs and expectations . Public awareness . Suppliers . External disasters . External relations . Labour market

Process risk

Empowerment risk Purpose . Structure . Leadership . Accountability . Authority . Boundary . Compliance . Resource allocation . Communication . Rate of change . Performance measurement

Integrity risk

Fraud
Corruption Unauthorised use
Unethical practice
Illegal acts Reputation
Conflict of interest

Legal risk

Regulatory compliance
Litigation
Contractual

Financial risk

Cash flow
Budget control
Cash collection
Bad debts
Payment
Investment
Insurance
Currency
Misappropriation
Value for money

IT risk:

System failure / Availability
Technology
Integrity
Unauth. access/use
Loss of data
Cost / time overruns
User needs not met

Patient Care and Safety Risk

Patient and family rights

Information & Consent
Confidentiality
Security
Satisfaction/complaints
Privacy
Participation
Comfort / Convenience

Access and continuity

Availability / Access
Appropriateness
Timeliness / delay
Continuity
Over / under utilisation
Volume / capacity
Interfaces

Assessment of patients

Adequacy of assessment
Error (laboratory / reporting / interpretation)
Appropriateness

Care planning

Care of patients

Standard of care/Bolam
Competence
Safety
Care/Treatment accident Prescribing accident
Drug admin. accident
Efficacy
Nosocomial Infection
Clinical trial / new treatment

Patient /family Educ.

Clear Communication
Patient compliance

Other

Documentation / recording
Service development

Physical resource risk

Facilities / Equipment

Capacity
Availability
Breakdown / Interruption Utilisation
Performance
Efficiency / Economy
Compatibility
Misuse / Impairment
Loss
Operator
Technology
Utilities failure

Environment

Environmental Impact
Conservation
Waste

Supplies

Defective products
Product/service failure
Economy
Supplier
Stock-out
Obsolescence /shrinkage

Health and safety

Act of God
Buildings / Equipment / Grounds
Fire / Explosion /Flooding
Hazardous substances/ Radiation
Medical equipment and supplies
Food hygiene
Security
Infectious Disease
Insects and rodents
Contractor

Human resource risk

Staff capabilities and education

Qualifications /registration
Proficiency
Professional development

Maintaining a quality workforce

Loss of key staff
Turnover
Recruitment
Remuneration
Industrial relations
Workforce planning
Performance
Productivity
Efficiency
Teamwork
Performance Incentives Coverage / skill-mix
Absence / attendance
Staff morale

Occupational safety and health

Safe systems of work
Instructions / training /supervision
Security / Violence
Stress
Hazardous exposure

Information for decision making risk

Access . Availability . Accuracy . Timeliness . Completeness . Usability . Utilisation

Clinical . Operational . Financial . Strategic



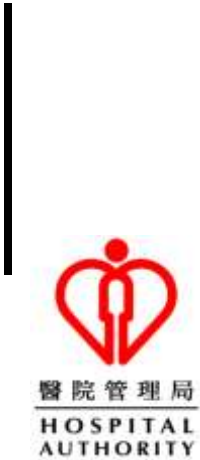
The size of the problem

Sari AB-A, Sheldon TA, Cracknell. (2007)

Extent, nature and consequences of adverse events: Results of a retrospective casenote review in a large NHS hospital.

Quality Safer Care 16:434-9

- 8.7% of admissions had at least one adverse event of which 31% were judged preventable
- 15% of adverse events led to an impairment or disability that lasted > than 6 months
- 10% contributed to patient death



RISK QUANTIFICATION MATRIX

Consequence

| Likelihood | Consequence | | | | |
|--------------------|--------------------|------------|---------------|------------|--------------|
| | Insignificant 1 | Minor 2 | Moderate 3 | Major 4 | Extreme 5 |
| Almost certain - 5 | Low | Medium | Medium | High | High |
| Likely - 4 | Low | Medium | Medium | High | High |
| Possible - 3 | Low | Medium | Medium | Medium | Medium |
| Unlikely - 2 | Low | Low | Medium | Medium | Medium |
| Remote - 1 | Low | Low | Low | Low | Low |

RISK  Low  Medium  High



RISK QUANTIFICATION MATRIX

Consequence

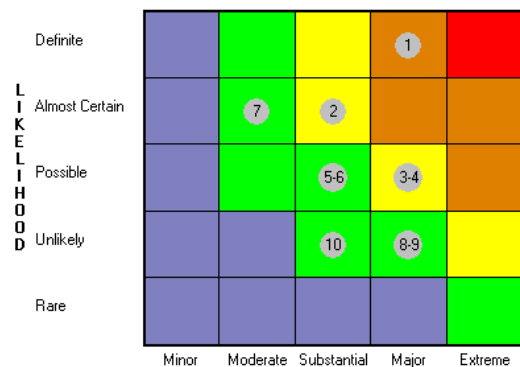
| Likelihood | Consequence | | | | |
|--------------------|--------------------|------------|---------------|------------|--------------|
| | Insignificant 1 | Minor 2 | Moderate 3 | Major 4 | Extreme 5 |
| Almost certain - 5 | 5 | 10 | 15 | 20 | 25 |
| Likely - 4 | 4 | 8 | 12 | 16 | 20 |
| Possible - 3 | 3 | 6 | 9 | 12 | 15 |
| Unlikely - 2 | 2 | 4 | 6 | 8 | 10 |
| Remote - 1 | 1 | 2 | 3 | 4 | 5 |

RISK  Low  Medium  High

Top (10) Controlled Risks Graph Report

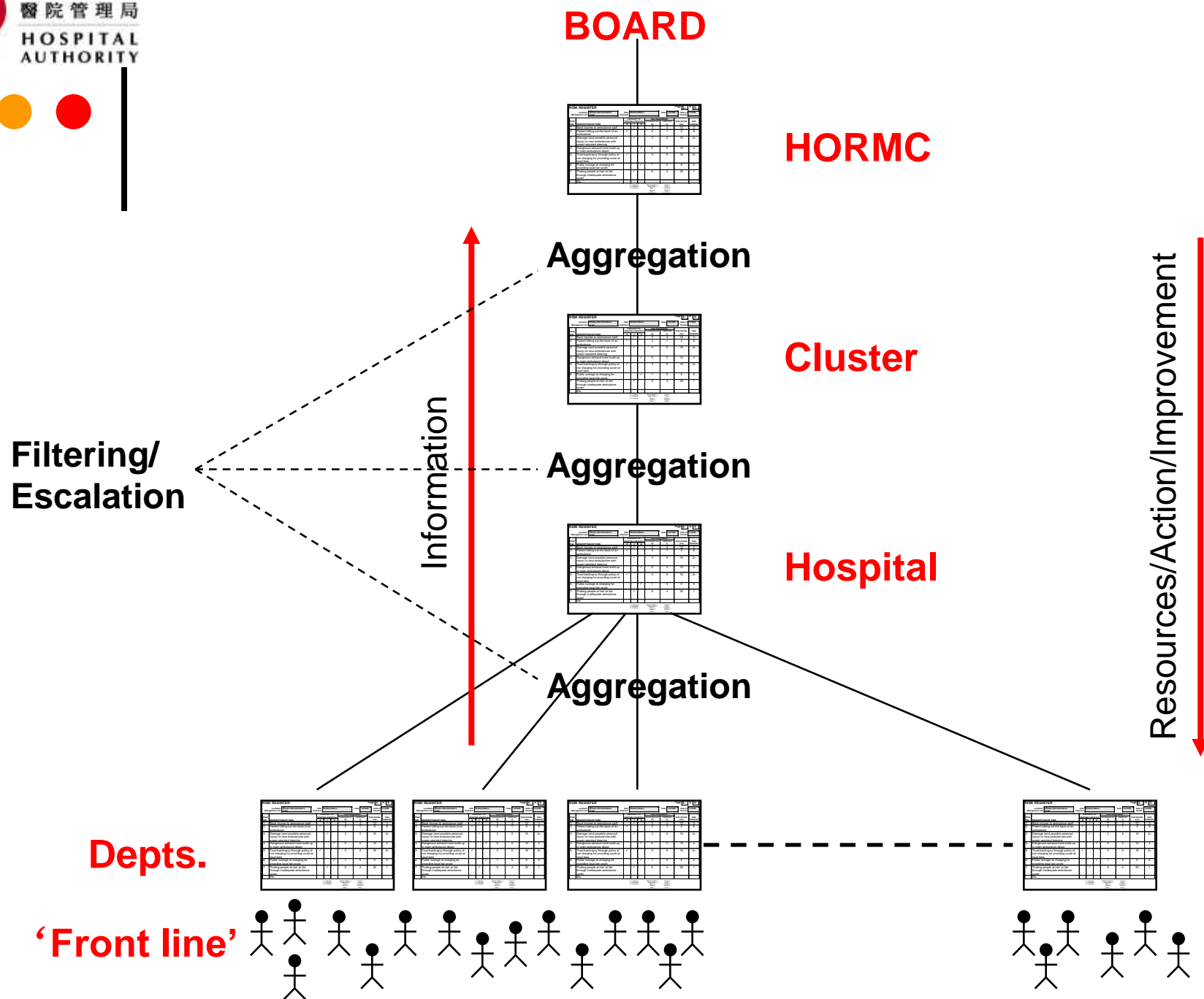
Clinical Services Directorate

June 2004



■ Risk after control assessment

| Name | Consequence | Likelihood | Severity |
|--|-------------|----------------|-------------|
| 1 Litigation by people infected with Hepatitis C via Blood | Major | Definite | Major |
| 2 Capitation Based Funding policy and application do not rebuild sector confidence | Substantial | Almost Certain | Substantial |
| 3 Leading for Outcomes does not substantially reduce harm from Diabetes and CVD | Major | Possible | Substantial |
| 4 Improving Quality (IQ) Action Plan fails to significantly improve patient safety | Major | Possible | Substantial |
| 5 Waiting times for Cancer Treatment unacceptable | Substantial | Possible | Moderate |
| 6 Primary Care Funding increase does not substantially reduce patient charges | Substantial | Possible | Moderate |
| 7 New blood product technologies threaten viability of NZBS | Moderate | Almost Certain | Moderate |
| 8 Systems ill prepared to deal with Emergencies | Major | Unlikely | Moderate |
| 9 Substantial numbers of residential care providers not certified | Major | Unlikely | Moderate |
| 10 Elective Services policy and application fails to reduce waiting times | Substantial | Unlikely | Moderate |



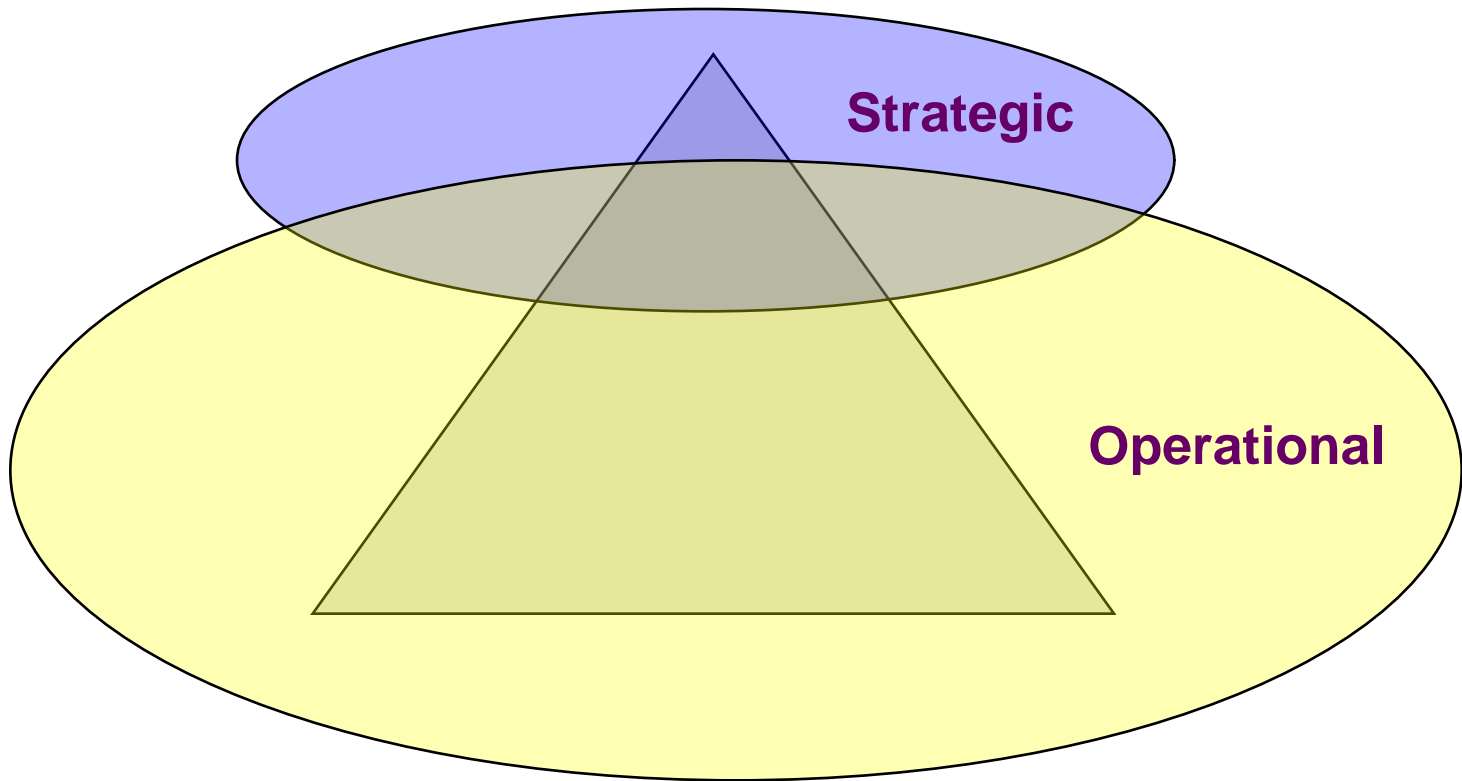
| HDFT Risk Register | | | | | | | Date January 2009 | | | | | | | | | |
|--------------------|--------------------------|----------|-----------------------|-------------------|---|---|----------------------|--------------------|---------------------|--|-----------------------|---------------------|---------------|--------------------------------|-------------|--|
| Unique Ref. | Date added [to register] | Priority | Risk type or standard | Risk Source | Risk description | Existing Controls | Initial Consequences | Initial Likelihood | Initial Risk Rating | Additional Control(s)/ Action(s) required (Summary risk treatment plan) | Residual Consequences | Residual Likelihood | Residual Risk | Responsibility | Review Date | Assurance |
| Cor 5 | 1-Jan-07 | 1 | C18/19 | From CBU register | Failure to be able to flex capacity in response to additional demand in excess of plan | Service redesign work Performance group Strategic review steering group. Service Development Steering Group | 4 | 4 | 16 | Review of capacity Roll out service redesign work Robust commissioning | 4 | 3 | 12 | R Ord / CBUs | 1-Jun-08 | Performance Monitoring report Meetings with PCT-minutes Minutes of service redesign meetings. Aggrred activity and financial schedule |
| Cor 9 | 1-Jan-07 | 1 | C1 and 11 | From CBU register | Risk to patients due to potential reduced skill base due to lack of uptake of training and lack of experience | Identifying key competencies Effective incident management to reduce impact. Training programmes Induction programmes Ward-based teaching/supervision Transfusion practitioner Specialist based induction | 4 | 4 | 16 | E-based learning Training Co-ordinator Use of Charitable funds | 4 | 2 | 8 | P Marshall and all EMB members | 1-Jun-08 | CNST College Visits Deanery Visits Midwifery and nursing visits IR1system Claims Complaints data Governance Committee |
| | | | | | | | | | | Table top exercise | | | | R Ord | | Business Continuity |

Operational risks issues identified by Clusters for 2004/05

1. Infection control
2. OSH
3. Medication error
4. Resuscitation
5. Transfer of patients
6. Documentation of medical records, including consent
7. Patient identification (during consultation, blood sampling, operation & for investigations)
8. Wrong site surgery
9. Improper use of infusion pumps
10. Medico-legal risk (open disclosure)



Strategic Vs Operational risk?



Strategic 'challenges' for Hospital Authority 2004/05

- SARS and review reports
- Resources availability
 - Funding
 - Beds
 - Staffing
- People capacity
- Service expansion/demand
- New technology
- Evolution of cluster management



SIC
 ↑
 CEO

BOARD

Independent Assurance
 ↗

'Top-down' population

Priority Setting & Assurance
 (Clinical/Management)

6-12 current issues

External
 Audit

**Audit
 Committee**

| RISK REGISTER | | Page 1 of 7 | | | | | | | |
|---|--|-------------------------------|--------------------------|---|-----------------|----------------|----|-------------|--------------|
| Location/ Management unit: Dingley Dell Ambulance Trust | | Risk Assessor: Rodman Moore | Date of Review: 14/10/99 | | | | | | |
| Risk Ref. | DESCRIPTION OF RISK | ADEQUACY OF EXISTING CONTROLS | | | RISK ASSESSMENT | | | RISK RATING | RISK RANKING |
| | | A | I | C | Consequence (C) | Likelihood (L) | GL | | |
| 1 | Back injuries to ambulance staff | ✓ | | | 3 | 4 | 12 | 3 | |
| 2 | Patient falling out the back of an ambulance | ✓ | | | 4 | 1 | 4 | 6 | |
| 3 | Damage (and possible personal injury) to new ambulances with power-assisted steering | | ✓ | | 3 | 5 | 15 | 2= | |
| 4 | Dangerous exhaust fume build up in main ambulance depot | | | ✓ | 5 | 2 | 10 | 4 | |
| 5 | Trust bankruptcy through policy of not charging for providing cover at local fairs | ✓ | | | 3 | 5 | 15 | 2= | |
| 6 | Public outrage at charging for providing local fair cover | | | ✓ | 1 | 5 | 5 | 5 | |
| 7 | Putting people at risk at fair through inadequate ambulance cover | | ✓ | | 5 | 4 | 20 | 1 | |
| | Etc. | | | | | | | | |

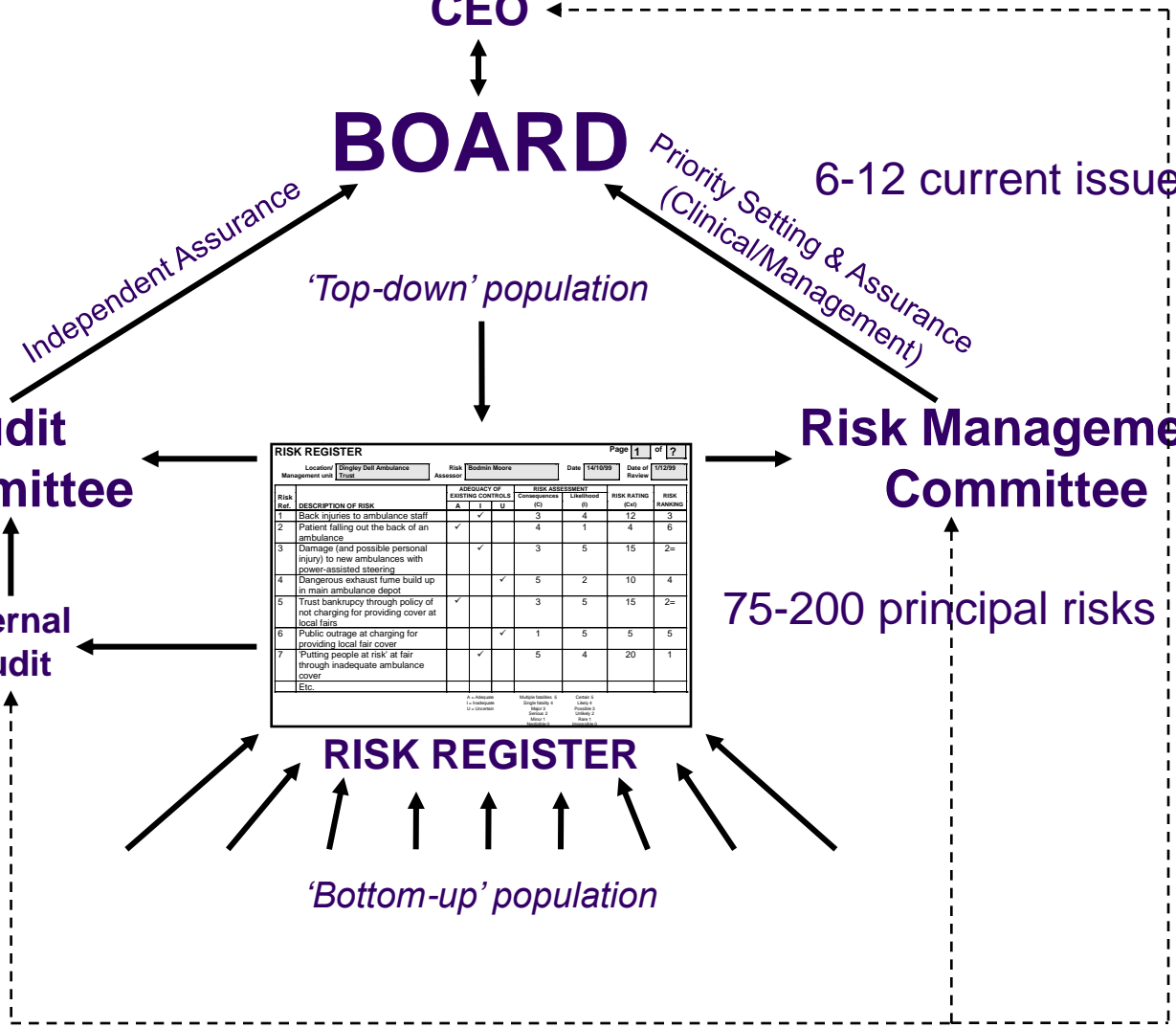
**Risk Management
 Committee**

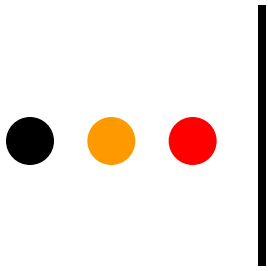
75-200 principal risks

Internal
 Audit

RISK REGISTER

'Bottom-up' population





TIMESONLINE

From The Times

June 9, 2009

Boards should wake up to their responsibilities over risk

David Wilson

There is an assumption in too many boardrooms that, as long as one of the board committees has looked into a particular issue, the directors can be discharged of their responsibilities for critically appraising the risks associated with achieving the business plan.



“Risk needs to be given a higher profile at board level and directors need to be aware that it is their responsibility to be alert to new and emerging risks.....the board should be responsible for agreeing the risk parameters within which the company should operate. This is a matter for the board acting collectively: it is not one that can be delegated to a board committee.”

David Wilson, The Times, 9 June 2009



Critiquing traditional approaches

Caroline Oliver

Past Chair International Policy Governance Association (IPGA)

Current Chair UK Policy Governance Association (UKPGA)

Author of three books on Policy Governance

International consultant in Policy Governance



Question

What makes for good risk management at board level?

Proactive not reactive

Covering all known AND unknown risks

Continuous focus not exception reporting



How Policy Governance Works

- Principle of accountable delegation
- Always starting from broadest level first – covering all risks known and unknown
- Shifting environment, shifts risk
- **Monitoring**
The board demands *regular evidenced assurance* of organisational operation within “any reasonable interpretation” of board policy in the form of:
 - explicit, justified, compliance standards for fulfillment of every policy
 - verifiable data on same



Tackling Risk Management using Policy Governance

Ray Tooley P.Eng.

CEO OurBoardroom Technologies Inc.

Board Member, UK Policy Governance Association

Formerly member of Dealer Executive Councils of Compaq and AT&T and advisor to IBM, Hewlett Packard, Microsoft and other industry innovators.



Segment Outline

- Volunteer Limitations for Discussion
 - Will apply principles discussed
- Properties of Risk from a Policy Governance[®] Perspective
- Discussing and Measuring Risk at the Board Table
- The Policy Governance[®] Risk Register: Executive Limitations
- Executive Limitations Decision Diagram



Why Should Boards Be Concerned About Risk?

- Ownership → Board → Organization
- What two primary accountabilities do owners ask of the board?
- What two primary accountabilities does the board delegate to the CEO?



Properties of Risk

- Where do risks come from?
- Are there degrees of risk?
- Does risk exist before a harmful event happens?
- Can all risks be predicted?
- Can an organization prepare for risk?
- Can risk be managed? All risks?
- What is the role of the board in risk management?
- What is the role of the CEO/Organization in risk management?



Policy Governance[®] and Risk Management

- What policy quadrant identifies the categories of risk an organization faces?
- Could Executive Limitations be considered a “Risk Register”?
- How does the board create, add, remove or change Executive Limitations policy?



Example of Executive Limitations Policies

- Interesting Statistic from a sampling of over a dozen OurBoardroom Clients
 - Smallest number of EL Policies = 54
 - Largest number = 259
 - Average number = 99
- See OurBoardroom Screen
 - Risk Area
 - Boundary
 - Method of Managing Risk
 - Each Policy Level Accumulates Risk of Child Policies
 - What does Interpretation do?



Decision Factors & Process

- Prudence, Ethics, or both
- Define Risk Area
- Assess the impact of negative events in Risk Area
- Judge the likelihood of events happening in Risk Area
- Judge the amount of Risk in Risk Area by considering Impact X Likelihood
- Over time Board develops a minimum Risk Level for the Risk Areas it defines (i.e. EL Policies)
- Board considers Risk Level when deciding if they should narrow reasonable interpretations the CEO.
 - Is “Degree of Risk” one measure when considering limiting CEO options?
 - Is “Risk Assessment” a tool boards can use when considering setting further CEO boundaries?



Decision Factors & Process

- Since Risk Level is based on Likelihood of a negative consequence, Risk Level is proportional to unacceptable CEO options.
- Board may wish to compare risk level with other Executive Limitations policies in judging relative Risk Levels
- Risk Areas with lower risk than board minimum Risk Level may either
 - not be included in Policy, or
 - The board may lower its Minimum Risk Level
- Caution: If Risk Level of area under consideration is much lower than the boards Minimum Risk Level, board may wish to reconsider including it.
 - Challenges in creating too much Policy include, time and cost of monitoring, board swamped with detail, loss of focus on Ends, etc.
- Add or remove policies at appropriate level
- Question: Does policy level=degree of risk?



Risk Areas with Degree of Risk

Risk Area

Likelihood X Consequences = Risk

Executive Limitations

1,000,000

Treatment of Customers

110,000

Treatment of Employees

110,000

Financial Planning & Budgeting

75,000

Financial Condition & Activities

300,000

Asset Protection

100,000

Emergency Loss of CEO

25,000

Communication & Support to Board

230,000

All Other Unknown Risks in EL Area

50,000

Total = 1000,000



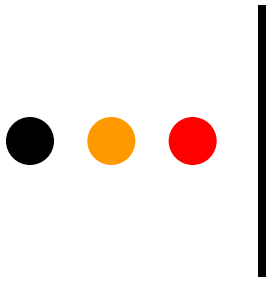
Risk Areas with Degree of Risk - Sorted

| Risk Area | Likelihood X Consequences = Risk |
|------------------------------------|---|
| Executive Limitations | 1,000,000 |
| Financial Condition & Activities | 300,000 |
| Communication & Support to Board | 230,000 |
| Treatment of Customers | 110,000 |
| Treatment of Employees | 110,000 |
| Asset Protection | 100,000 |
| Financial Planning & Budgeting | 75,000 |
| All Other Unknown Risks in EL Area | 50,000 |
| Emergency Loss of CEO | 25,000 |
| | Total 1,000,000 |



Extending the Risk Areas

| Risk Area | Likelihood X Consequences = Risk | | |
|------------------------------------|----------------------------------|---------|------------------------|
| Executive Limitations | | | 1,000,000 |
| Financial Condition & Activities | | 300,000 | |
| Surplus & Loss | 125,000 | | |
| Reserve Levels | 20,000 | | |
| General Fund Reserves | 9,000 | | |
| Plant Fund Reserves | 9,000 | | |
| Other Unknown Risks | 2,000 | | |
| Real Property | 30,000 | | |
| Pursuit of Receivables | 70,000 | | |
| Payroll and Debts | 20,000 | | |
| Purchasing Guidelines | 10,000 | | |
| All Other Risk Areas | 25,000 | | |
| Communication & Support to Board | | 230,000 | |
| Treatment of Customers | | 110,000 | |
| Treatment of Employees | | 110,000 | |
| Asset Protection | | 100,000 | |
| Financial Planning & Budgeting | | 75,000 | |
| All Other Unknown Risks in EL Area | | 50,000 | |
| Emergency Loss of CEO | | 25,000 | |
| | | | Total 1,000,000 |



Listing the Major Risk Areas

Budget Deviations
Disclosure of Decreases in Reserves
Audit Firm
Real Property
Strategic Plan
Board Initiatives
Fund Expenditure
Restricted or Long-Term Accounts
General Fund Reserves
Plant Fund Reserves
Payroll and Debts
Tax Payments or Filings
Pursuit of Receivables
Asset Protection
Communication and Support to the Board

Compensation and Benefits
Reserve Levels
Building Names
Agency Sanctions
Collection of Consumer Information
Access to Consumer Information
College Facility Accessibility
Consumer Communication
Written Personnel Rules
Discrimination Against Employee Dissent
Employee Grievances to the Board
Inform Employees of Protections
Change President's Compensation
Promise of Employment
Market Deviation



Listing the Major Risk Areas

Retirement Benefits
Term of Employment
Employment Subject To
Unfunded Liabilities
Previous Benefits
Basic Benefits
President
Insurance
Access to Funds
Equipment
Liability
Intellectual Property
Controls
Operating Capital
Public Image

Ends Focus of Grants and Contracts
Preventative Methods
Applicants
Monitoring Reports
Compliance
Points of View
Presenting of Information
Mechanism for Communications
Individual Requests
Timely Reporting
Budget Deviations
Reserves
Treatment of Employees (Staff & Faculty)
Treatment of Consumers
Consent Agenda
Informing Consumers



Listing the Major Risk Areas

Relevant Information

Employment and Revenue Projection

Expenditures

Financial Condition and Activities

Purchasing Guidelines

Code of Ethics

President Succession

Lease Limits and Delegation of Lease Authority

Certification Financial Records

Executive Limitations

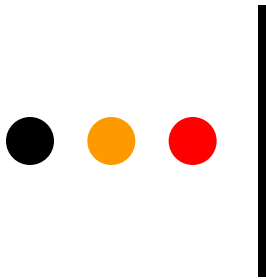
Annual Budget Inclusions

Financial Planning and Budgeting

Sustainability of College Infrastructure

Personal Loans to Employees

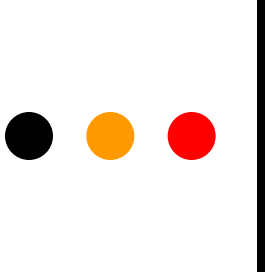
Improvements to Leased Property



Sorted Risk Area Sample

| | |
|---|--------------------|
| Executive Limitations | 1,000,000 |
| Financial Condition & Activities | 300,000 |
| Communication & Support to Board | 230,000 |
| ... Other Risk Areas | 230,000 to 125,000 |
| Surplus & Loss | 125,000 |
| Treatment of Customers | 110,000 |
| Treatment of Employees | 110,000 |
| Asset Protection | 100,000 |
| ... Other Risk Areas | 100,000 to 75,000 |
| Financial Planning & Budgeting | 75,000 |
| Pursuit of Receivables | 70,000 |
| ... Other Risk Areas | 70,000 to 30,000 |

Note: For simplicity Other Risk Areas present are not listed



Sorted Risk Areas Sample

... Continued

| | |
|--------------------------------|------------------|
| Real Property | 30,000 |
| Emergency Loss of CEO | 25,000 |
| Reserve Levels | 20,000 |
| Payroll and Debts | 20,000 |
| ...Other Risk Areas | 20,000 to 10,000 |
| Purchasing Guidelines | 10,000 |
| General Fund Reserves | 9,000 |
| Plant Fund Reserves | 9,000 |
| ... Other Risk Areas | 9,000 to 1,000 |
| Staff Performance Bonus | 1,000 |
| ... Other Risk Areas | 1,000 to 500 |
| Quality Management | 500 |
| ... Other Risk Areas | 500 to 25 |
| Parking Lot Pavement Thickness | 25 |

Using Risk Assessment the Board can make informed choices to limit CEO choices.



Considerations for EL Policy Language

- Risk Area – Title of the policy
- Assess the Level of Risk in Risk Area
- The Boundary – Define what is allowed and not allowed
- Method of Management – One of four basic methods of managing risk. The board may specify this or delegate to the CEO.



EL Policy Language - Methods of Managing Risk

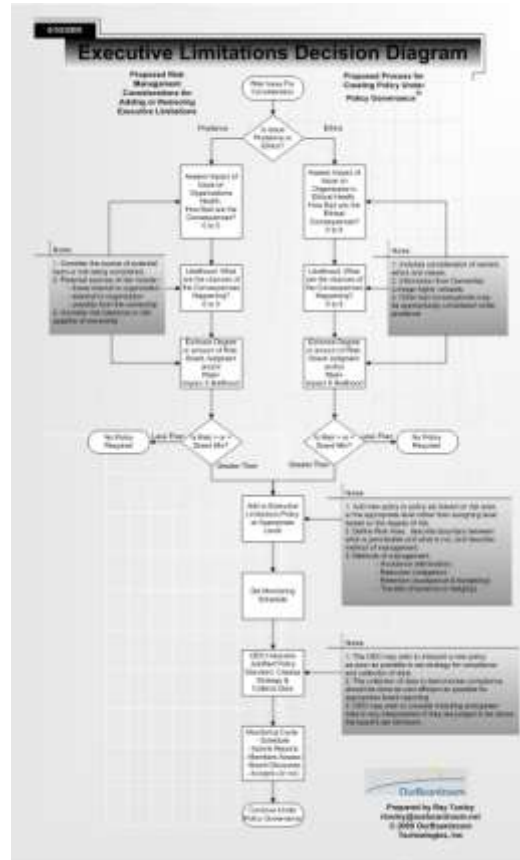
- Avoidance (elimination)
- Reduction (mitigation)
- Transfer (insurance or hedging)
- Retention (acceptance and budgeting)



Monitoring

- Environmental factors can change Risk over time
- Monitoring Report Compliance Standard
 - CEO may wish to include Risk Areas where cumulative risk is within the Board's Risk Standard

Executive Limitations Decision Diagram



A graphic element consisting of three solid circles in a row: black, orange, and red. To the right of these circles is a thin vertical black line.

Thank You

Stuart Emslie, Ray Tooley, Caroline Oliver
IPGA Conference 2009
Montreal, Canada