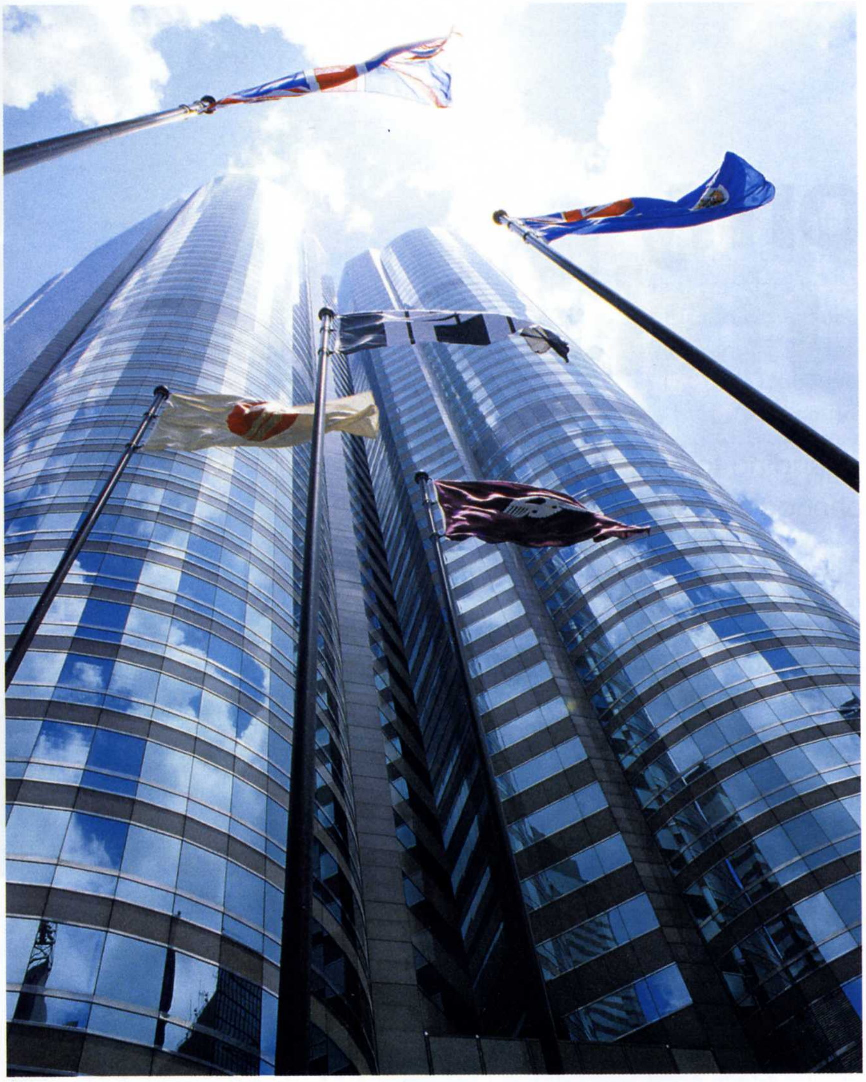

Raising the Standard

A new Risk Management Standard to be released in 2009 is poised to redefine the formal definition of "risk" itself. Grant Purdy offers this preview.

The Australian and New Zealand Risk Management Standard, AS/NZS4360, has served practitioners well over the last 14 years. Many organisations throughout the world have used its advice to develop and implement practical ways to manage risks. In recognition of its global status, the International Standards Organisation has now developed a new ISO Standard, based on AS/NZS4360:2004, which will be published later this year.

Australia and New Zealand have played a large role in the development of ISO31000:2009 and the Standards Australia and Standards New Zealand Risk Management Committee (OB7) is convinced it will be a worthy successor to AS/NZS4360:2004. Those organisations that have built their risk management framework on the old standard should not feel uncomfortable with the new one, but use its publication as an opportunity to see how their current approaches can be improved.

One of the first changes risk management professionals will encounter in the new standard are revised definitions for key terms, including "risk" itself. The revised definitions support a new, simpler way of thinking about risk that will help remove much of the inconsistency and ambiguity that currently exists.

For many years we have defined risk not only in terms of something that might happen, but its impact on an organisation's objectives. AS/NZS4360 defines risk as: "The chance of something happening that will impact objectives."

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This recognises that risk is not just about harmful events – risk and its consequences can be positive.

The definition of risk in the new standard is: "The effect of uncertainty on objectives."

The change is important and it sets the scene for risk management (and for many risk management professionals) for the future in that the definition shifts the emphasis from "the event" (something that happens) to the "effect" and, in particular, the effect on objectives.

By way of illustration, risk is not the chance of the share market crashing but the chance that a crash will disrupt or affect you or your organisation's objectives by, for example, limiting capital for expansion.

Both the old and new definitions clearly place risk in the context of what an organisation wishes to achieve: its objectives. Risk arises because those objectives are pursued against an uncertain background. An organisation may set its objectives, but to achieve them it often has to contend with internal and external factors and influences it may not control and which generate uncertainty and, therefore, risk. These factors might assist or speed up the achievement of objectives. They might also prevent or delay the organisation achieving them.

Risk is implicit in all decisions we make, and how we make those decisions will affect how successful we are in achieving objectives. Decision-making is, in turn, an integral part of day-to-day existence and nowhere more prominent in an organisation than at times of change and when responding to external developments.

This is why risk management should be closely linked to the management of change and decision-making, and not just a once-a-year activity to generate a report. **R**

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