ANNEXURE G

RISK MANAGEMENT MATURITY MODEL

Public institution's willing to implement a formal structured approach to risk management or to improve their existing approach requires a framework against which to benchmark their current risk management processes. Best practice benchmarks are usually defined in terms of maturity, normally reflecting increasing levels of sophistication together with other features.

The risk management processes maturity of a public institution can be categorized into different levels. They start with the level of no formal structured risk management process to the level of optimized risk management level, whereby risk management processes are fully integrated into all aspects of a public institution. There are five different risk management maturity model levels.

9.1 Risk management maturity model levels:

9.1.1 Level 1: Non-existent

A public institution will be deemed to be in this level, if there is a lack of formalized risk management processes to deal with future uncertainties. No attempts are made to identify risks, and develop mitigation plans. The public institution, management and employees have an overall lack of awareness of risk management principle

9.1.2 Level 2: Initial/Ad Hoc

A public institution is deemed to have reached the initial or ad hoc level when the public institution has recognized the need for formal risk management processes. At this level risk management processes are repetitive and reactive, with little or no attempt to learn from past experiences or to prepare for future uncertainties. No attempt is made to identify risks or to develop mitigation or contingency plans. The normal method for dealing with risks is to react after risk eventuation with no proactive thought. During risk eventuation, operational processes are normally abandoned, downscaled, or temporarily abandoned and management hopes for the best. Occasionally, capable officials can identify and mitigate risks; but when they leave, their influence leaves with them. Even strong operations plans cannot overcome the instability created by the absence of sound risk management practices. At this level, some public institutions are experimenting with the application of risk management, usually through a limited number of individuals. At this level, public institutions would have no formal or structured risk management processes in place. Although the public institution is aware, at some level, of the potential benefits of managing their risks, there are no effectively implemented enterprise-wide processes.

9.1.3 Level 3: Repeatable

At the repeatable Level, a public institution would have implemented risk management into their routine processes. Risk management is implemented in most, if not all, units. Generic risk policies and procedures are formalized and the benefits of risk management are understood at all levels of the public institution. There is some risk management success stories is some programmes. Risk management capability is enhanced by establishing basic risk management disciplines on a routine basis. Programmes or units implement risk management through processes that are defined, documented, practiced, measured, enforced, and improvable. All units or programmes would typically have an identified risk owner. The basic requirement for achieving Level 3 is that there be policies that guide the units, or programmes in establishing the appropriate management processes. Capability of Level 3 can be summarized as disciplined because earlier successes can be repeated. The public institution's risk management processes are under the effective control of a defined system, following realistic plans based on the performance of previous experiences or bench marking on success stories

9.1.4 Level 4: Managed

A public institution would have attained the managed Level, when the public institution has established a risk-aware culture that utilizes a proactive approach to the management of risks in all aspects of the public institution. Appropriate information is continually developed and actively used to improve all the public institutions processes. Standard risk management processes are documented and utilized across the public institution. Risk management responsibilities have been assigned to individuals (risk owners, committees, coordinators, etc) in the public institution, thus opening formal and effective communication channels. Risk awareness interventions, training programs, etc are implemented to ensure that the officials have the required knowledge and skills to fulfill their assigned roles

9.1.5 Level 5: Optimized

The optimized level is attained when public institution's establishes an institution-wide continuous improvement programme that takes into account lessons learned and best practices. Information Technology systems are utilized to achieve risk management objectives

9.2 Progressing Between Maturity Levels

The risk management maturity model can be used by public institutions to enhance their level of risk capability by devising strategies to enable them to be more effective in their risk management processes. Once public institution's current risk maturity level is determined, action plans for moving towards the next level can be developed. Different opportunities and challenges will surface at each of the level, which must be overcome and exploited, if progress is to be made to the next level of risk maturity. These are outlined below, together with some suggested strategies for overcoming the challenges.

9.2.1 Progressing from Level 1 to level 2

Normally public institutions sitting on a level 1 non-existent maturity will have no understanding of:

- basic principles of risk management;
- benefits of effective risk management; and
- dangers associated with lack of risk management

With change being a widely loathed and painful word, resistance should be expected when public institutions try to move from non-existence to initial/ad hoc level. Changes in processes directly linked to risk management must be handled with due care. Effective communication and obtaining a buy-in into the risk management concepts will soften some of the impact that might arise. Initially there would be no clear understanding of a formal risk management process, procedures and techniques, and even the language and terminology will be unknown.

There is no clear concept of the benefits that can be gained from formal risk management and the cost of implementing the process are normally not considered. There is no in-house expertise or experience in performing risk management or when trying to consider the applicability of risk management to the public institutions programs and business processes.

At least some of the public institutions processes are in crisis mode at any given time, leading to a lack of time, energy or resources to commit to installing and maintaining necessary processes. Management or officials may not be receptive to anyone, internal or external, that is promoting risk management, since they are uninformed and lack any track record against which to judge the promised risk management benefits. Management may also believe that acknowledging that the public institutions processes are subject to uncertainty may be seen as an admission of weakness or lack of skill on their part, thus some level of resistance might be encountered. The organizational culture may not be committed to quality and may lack the concept of professionalism.

In progressing from non-existent to the initial/ ad-hoc level public institutions, might consider the following actions:

- Clearly define the objectives of the risk management implementation to enable the risk processes to be tailored and scoped accordingly;
- Get advice and guidance from recognized external experts, who have track records in assisting public institutions in risk management implementation. The provincial treasury is in a position to assist in this regard. With external experts, due care must be exercised, and the public institutions must guard against being advised to adopt a generic solution or processes that does not match their particular requirements;
- Ensure buy-in into basic risk management principles from management, and ensure at least a member of the management team to sponsor the implementation;
- Communicate basic principles of risk management to all employees;
- Learn from past mistakes in business processes;
- Implement proactive processes;
- Development of simplified risk management policies;
- Effectively communicate benefits of effective risk management, and pit-falls of a non-existent risk management system;
- Nominate units to pilot implementation of risk management, carefully selected to maximize the chances of early success;
- Publicize and celebrate successes. Seek to develop momentum in the risk processes and to encourage other units and individuals to apply risk management to their areas as they see clear benefits;
- Plan for the long-term, recognizing that effective implementation of risk management will not be achieved overnight. Note the cost of the implementation processes, and ensure commitment of the necessary resources before starting; and
- Build-in effective monitoring controls into the implementation to enable optimal monitoring of successes and failures

9.2.2 Progressing from Level 2 to level 3

A Level 2 public institution has a number of individuals (possibly only one) able to effectively plan and apply risk management procedures and techniques. At this level, risk management is seen as an additional activity to be undertaken where necessary. So whatever risk process is used by various units is unlikely to be used consistently or widely. Application of any risk management process is limited to a few major or significant units. This introduces a number of barriers to be overcome to reach Level 3 and normalize the application of a risk management process across the public institution. It should be noted here that that some public institutions may choose to remain at Level 2, with risk management being undertaken on selected units only. There is nothing wrong with this approach, depending on the dynamics and risk exposure of the public institution. The transition to Level 3 should only be undertaken if the benefits are worth the cost and effort involved

Some of the problems faced by the Level 2 public institution attempting to progress to Level 3 are as follows:

- Lack of organizational-wide formal risk processes produces inconsistency in their application and inconsistency in results;
- Dependence on the skills of a few employees could limit the overall effectiveness of the risk process and negatively impact both existing units that use risk management and units attempting to implement the process for the first time;
- Lack of support for those implementing risk management may lead to disillusionment and low morale;
- Limiting promotion of risk to the lone enthusiast can undermine the credibility of the risk process;
- Partial or inconsistent application of risk processes is unlikely to generate useful metrics that fully demonstrate the benefits of managing risk. There is therefore no auditable track record of what risk management can achieve, resulting in a lack of credibility and a reluctance to adopt risk management more formally;
- Poor use of risk assessment tools and risk registers; and
- Lack of a benchmarking process to check process capability

These problems can be addressed in a number of ways to enable the public institution to progress towards Level 3. Where the actions listed above for the Level 1 to level 2 transitions are not in place, these should be considered in addition to those provided below:

- Reinforce and strengthen management backing for those individuals and teams attempting to implement the risk management process. Visible endorsement from management is essential to give the necessary credibility;
- Provide formal risk training to develop in-house expertise and process knowledge;
- Use external expertise as necessary to reinforce and support existing in-house skills. Use of external expertise can be useful in extending your existing risk management process into new areas of the organization. Provincial treasury can also assist in this endeavour. Many of these new areas may be outside the knowledge of your in-house staff. External parties can also be used to apply the risk management process to novel or difficult areas;
- Allocate adequate resources to the risk management implementation process, with assignment or recruitment of sufficient staff, and assigned budgets for risk management training, risk assessment tools and other required risk management processes;
- Select key units to demonstrate the benefits of risk management in all areas of the public institution’s units;
- Continue to publicize and celebrate successes, encouraging wider application of risk management to other areas as benefits become clear;
- Provide opportunities for in-house staff to attend ongoing risk management training courses, conferences and seminars, workshops, etc;
- Formalize the chosen risk management process, with clear definition of the scope and objectives of risk management, together with agreed upon procedures and properly selected tools;
- Develop and implement a risk management policy;
- Insist that programme or unit heads use risk management as part of their management routine. Include regular risk reporting as an important part of management reviews; and
- Start to assemble metrics from the risk process; identification of generic risks, effective responses, the cost of risk reduction, etc. Specific checklists can be generated to facilitate the risk identification and assessment processes, based on actual experience of risk management within the public institution.

9.2.3 Progressing from Level 3 to level 4

Level 3 is probably sufficient for most public institutions, where risk processes are integral to the public institution and are consistently and routinely applied to most or all units. However, the risk management maturity model, advocate the need to identify, and strive for a level beyond Level 3, a maturity level where identifying, assessing and managing uncertainty becomes second nature and is built into all the activities and processes of the public institutions. At Level 4, a public institution can systematically use risk processes to address those uncertainties that have potential positive impact, being opportunities. In many ways the Level 3 to Level 4 change is expected to be almost as difficult as the transition from Level 1 to Level 2, since level 3 public institutions could easily come to believe that they have fully implemented risk management and no further change is necessary.

If the public institution wishes to progress to Level 4, the following problems are likely to be encountered:

- Loss of momentum could result in failure to maintain the required standards of application, with resultant loss of quality of risk management support. This would reduce the credibility of the risk management process, making it seem to be a temporary management craze whose time has passed;
- Public institutions could fail to update the risk management process to take account of changes in needs or other new developments. This could result in the risk process becoming outdated and increasingly irrelevant to the operations of the public institution;
- Lack of continued investment in the risk management process could result in reduced relevance or capability, as tools become obsolete, techniques become superseded and personnel skills are not maintained; and
- Development of in-house expertise might result in risk management being seen as a specialist discipline that is undertaken by experts, with consequent reduction in commitment and ownership by others in the programmes or units and the public institutions.

Actions to assist in progress towards Level 4 are as follows:

- Ensure effective learning from experience. Undertake regular reviews of the risk management process, with value engineering of the process to ensure that it remains fully effective;
- Amend and strengthen the risk management process where necessary, including investment in new tools, new methods, personnel training, etc;
- Investigate original applications of the risk management process beyond those already covered. Seek to modify and apply risk management to every activity within the public institution;
- Utilize every means possible to develop a risk management culture, encouraging all employees to think risk, be aware of uncertainty and use risk techniques to assess and manage potential threats and opportunities. Build risk thinking into your organizational culture. Be aware of the possible range of attitudes about risk;
- Ensure that risk is included as a routine criterion in all decision-making. Identify and counter incidences of risk fatigue, where employees are losing interest in the process or there is a potential loss of momentum. Use regular re-launch promotions to renew the process, celebrating successes, publicizing improvement metrics, and rewarding effective risk management; and undertake regular risk management training to ensure that skills remain current.

Most public institutions would most likely settle for this level. In such an instance, appropriate steps must be taken to ensure that the desired level is maintained. It is expected that to succeed in making risk management a natural part of any organizational culture will require some significant changes in determining how to apply risk techniques throughout the public institution and proactively manage uncertainty (including both risks and opportunities) in order to maximize the benefits mandates many changes in existing organizational cultures and personal beliefs.

A continuous improvement process is required to stay at Level 4 or any other level; without such a process it is of course possible to move down the maturity levels and drop to a lower level or risk management capability. A level 4 public institution will be threatened by complacency and boredom and should consider a number of actions to counter these problems, including those listed below:

- Ensure continued commitment of senior management. It may be necessary or beneficial to change the sponsor from time to time to allow injection of fresh ideas and momentum;
- Use audit and review techniques to keep application of risk management techniques at the required quality and standards;
- Take full advantage of the competitive edge that results from proactive management of uncertainty (including both risks and opportunities);
- Extend risk management beyond the usual applications, pioneering its use in all areas of the public institution;
- Continually invest in improving the risk process, tools, techniques, personnel skills etc; and
- Continuously strive to involve all key stakeholders in the risk processes

9.2.1 Progressing from Level 4 to level 5

Level 5, being the optimal level in which a public institution would have embraced all principles of risk management. Most public institution, would mostly likely without fault, settle for level 4 maturity.
But in instances whereby public institutions deem it prudent and necessary to go one level up, the following actions to assist in progress towards Level 5 are as follows:

- Fully exploit and integrate technology in all aspects of risk management;
- Benchmark against other public institutions or even private sector institutions on the level 5 maturity;
- Implement a programme of continuous improvement, and/or refinement into risk management processes; and
- Learn from previous experiences, and strive for excellence