

Chapter 9

Uniform Process and Facilitation

It's the constant and determined effort that breaks
down resistance, sweeps away all obstacles

Claude Bristol

Without everybody embracing what
we want to do, we haven't got a prayer

Jack Welch

9.1 Introduction

Subsequent to establishing the risk management strategies, tolerances and the common risk management language, it is necessary that the organisation defines a uniform process for corporate risk management and develops the skills of facilitation.

This uniform process will vary from industry to industry but should include certain fundamental elements to ensure best practice and that the corporate risk management initiative is a success. Uniformity should provide all stakeholders with increased confidence that risks are being suitably managed and provide flexibility to act on exposures in a timely fashion (De Loach, 2000: 115).

Facilitation skills will be necessary to aid the operation of the uniform process and ensure that accurate and comprehensive risk management results are obtained.

9.2 Aim

This chapter will aim at providing the reader with a uniform process that may be applied within a healthcare administration organisation as well as detail on each of the process's elements.

Suitable facilitation techniques will also be introduced and described.

9.3 Uniform process

Based upon an assessment of current risk management literature, most corporate risk management processes include the phases of risk identification, quantification and ongoing management. Figure 9.1 below depicts a suggested uniform process that may be applied by management within a healthcare administration organisation. The following sources were relied upon in developing the suggested process:

- De Loach, 2000
- Discovery, 2001
- IFAC, 1999
- King Committee, 2002
- Valsamakis *et al.*, 2000.

By implementing a uniform process, the administrator will obtain assurance that risks are defined within the context of its critical processes and that key risks are not overlooked.

As emphasised by figure 9.1, the uniform process is ongoing. Its ongoing nature ensures that existing risks are re-evaluated and that new exposures are identified timeously. The frequency with which the assessment should be conducted will be dependent on the needs of the healthcare administrator and the business criticality of the operations being assessed.

Figure 9.1: Uniform process



9.3.1 Identify

Once the healthcare administrator has focused on establishing an environment that engenders a common language, the risk management function should assist management in identifying exposures. It is important to note that one particular method of risk identification will, in most instances, be insufficient. It is recommended that management employ a combination of techniques in order to ensure that the identification process is comprehensive and adds value (Valsamakis *et al.*, 2000: 92). Of the tools that could assist the process owner in identifying key risks, the following methods will be discussed:

- *Risk brainstorming*: This is considered to be the most widely deployed tool for risk identification (De Loach, 2000: 118). Depending on the risk maturity of the management team, the risk management function could decide to apply a generic risk

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framework in the initial stages of the identification process. The suggested framework will act as a guide to management in ensuring that key risks are not bypassed. A framework similar to that identified in figure 8.1 of chapter 8 could be applied. The only requirement that should be adhered to during such sessions is identified risks being linkable to the medical scheme's strategic and operational objectives.

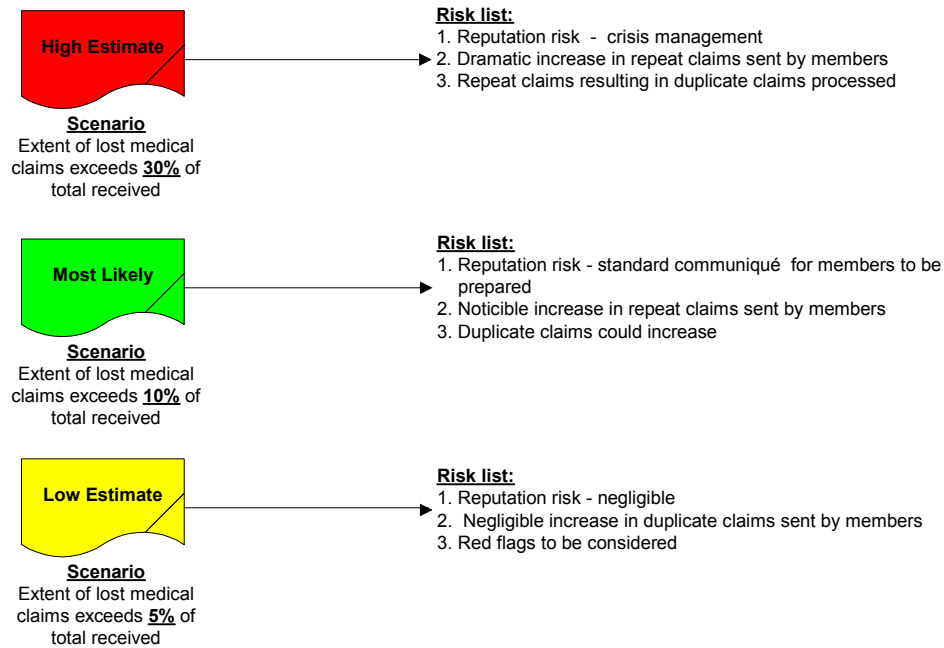
- *Scenario planning*: Scenarios have been called *strategic conversations* (McNamee *et al.*, 1998: 52). The reason for this is that management utilise scenarios to discuss their current plans, examine current results against possible futures and explore the risks and opportunities that may occur. Four distinct types of scenario planning may be applied within the healthcare environment:
 - *Planning narrative*: Single future scenarios that attempt to explore assumptions in-depth, enabling managers to make better decisions regarding new project investments. The time horizon is usually the project's useful life (*ibid.*).
 - *Threat scenarios*: Used to examine possible future events focused on a particular asset risk exposure. The time horizon is often indeterminate.
 - *Risk scenarios*: The use of scenarios to explore the risks in an actual situation along with a version that is less optimistic and one that is more optimistic. The time horizon is often less than 5 years. This type of planning is the most common form applied. Common considerations that may be applied when defining risk items include (Illbury *et al.*, 2001: 131):
 - Consider the existence and effect of external governing factors such as laws and regulations; etc.
 - Uncertainties which exist; and
 - Possible solutions and decisions, which are plausible.

Figure 9.2 provides an example on where risk scenario planning is applied on the issue of lost medical claims.

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- *Strategic scenarios:* Planning scenarios in sets of four or more equally plausible futures that have time horizons of 5, 20 or more years.

Figure 9.2: Risk scenarios: lost medical claims



Risk awareness is achieved by ensuring that the management team considers the process of risk identification as ongoing and not a once off exercise. Management will need to consider techniques for ensuring that momentum is retained and that buy-in is ensured.

Once the risks have been identified the process of source analysis can take place.

9.3.2 Source analysis

Source analysis is the focused evaluation of why, how and where exposures can happen. This is achieved by classifying risks identified into one of the categories included under in table 6.2 of chapter 6, viz.:

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<i>Inherent Risks:</i>	Risks that have a direct impact on the operating profit of an organisation, i.e. offensive in nature.
<i>Incidental Risks:</i>	Risks that do not form part of the main business operations but are necessary to ensure continuity of operations, i.e. hedging in nature.
<i>Systemic Risks:</i>	Risks that have no potential for showing a profit, i.e. defensive in nature.

This classification process will assist in ascertaining which risks are driven by external or internal factors (De Loach, 2000: 118). This will in turn provide management with the ability to select the most appropriate risk management strategy once the risk has been suitably quantified and evaluated.

To ensure that exposures and areas of opportunity are addressed, it is also necessary to ensure that owners for each of the key risks are identified. This will assist management in expediting the management phase of the uniform process discussed later.

9.3.3 Quantify

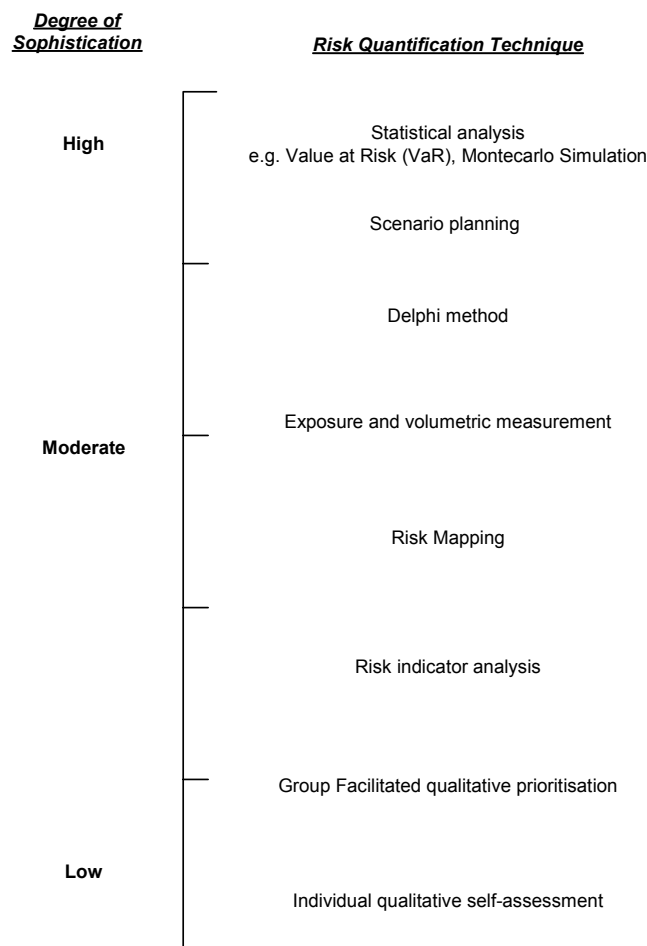
The quantification of risk is a difficult practice (Pickford, 2001: 41). The quantification process may vary in sophistication. This level of sophistication will usually be driven by 5 factors (ibid):

- Severity and increased volatility of the risk being assessed;
- complexity;
- availability of information;
- the purpose for which the risk quantification will be used; and
- cost of the quantification technique.

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Figure 9.3 (adapted from De Loach, 2000: 128) provides an indication of the varying types of risk quantification based on increased levels of sophistication. In addition to the varying degrees of sophistication, subjectivity within the quantification process is affected by the degree of skill of the risk management function as well as the extent to which collaborative techniques are applied. In instances where collaborative or group facilitation techniques are applied it is imperative that the risk management team understand the workings of the healthcare unit being assessed. This will ensure acceptance by participants. Section 9.4 of this chapter will deal with facilitation in more detail.

Figure 9.3: Quantification techniques by degree of sophistication



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Details on the other forms of quantitative techniques include:

- *Risk indicator analysis:* This technique utilises decision aids to assist users in identifying and evaluating qualitative risk factors. Decision aids typically provide a summary of questions that depending on the response suggest possible symptoms.
- *Risk mapping:* Assessment of risk based on likelihood and consequence.
- *Exposure and volumetric measurement:* What the cost or benefit of the risk is after all likely risk transfer strategies and opportunity exploitations have been considered.
- *Delphi method:* Appointment of a panel of experts to consider possible risks and associated measures. The subsequent co-ordination of results to prepare a composite list that is then returned to the experts for comparison with their initial lists.

Once the score has been determined for each of the risk items, it is necessary that this be offset against the approved tolerances.

9.3.4 Evaluate

You may recall from section 8.4 of chapter 8 that the trustees of the medical scheme, in conjunction with senior management, will set the maximum risk tolerance levels or capacities to bear risk. These tolerances indicate where return on investment is maximised and where no further risk management strategies are required to address unacceptable levels of risk. Tolerances are set per risk type and sanctioned by the risk committee.

The predetermined risk tolerances are then offset against the actual residual risk scores for each of the items being assessed. In instances where the actual risk score, after considering the effectiveness and frequency of controls and other management initiatives, exceeds acceptable tolerances, an event is noted. This event then forms the basis of introducing the next element of the uniform process, viz. manage.

9.3.5 Manage

The methods selected to address events will depend upon the cost of each method and its effect on the expected cost and variability of losses (Harrington *et al.*, 1999: 13). The corporate risk management policy should define management's position regarding flexibility within the decision-making process.

Should management utilise the risk mapping quantitative technique as a means of evaluating the extent of each risk, a management model similar to that in figure 9.4 may be applied (Treasury Board of Canada, 2001: 32).

Figure 9.4: Suggested management model when utilising risk mapping

Consequence	Risk Management Actions		
Significant	Considerable management required	Must manage and monitor risks	Extensive management essential
Moderate	Accept, but monitor risks	Management effort worthwhile	Management effort required
Minor	Accept risks	Accept, but monitor risks	Manage and monitor risks
	Low	Medium	High
	Likelihood		

The management of events includes a number of distinct phases. These phases are described below:

- *Develop action plans:* The various risk management strategies available to the administrator are included under section 8.5 of chapter 8 of this study. As mentioned in section 9.3.3 of this chapter, management in conjunction with risk management personnel will focus on ensuring that the size of potential losses, their probability, and the availability of resources are considered when selecting the most appropriate strategy. In addition to this, a number of other factors will assist management during the selection process:
- *Time variability:* This will attempt to categorise the various risk exposures according to a predefined time scale, e.g. short, medium and long-term. Defining risk according to such a scale should ensure that the most appropriate strategy is selected to address the extent of the risk over time. Any mismatch between the duration of the exposure and the length of time that management needs to implement a suitable strategy could result in unnecessary losses to the administrator and the loss of support for the corporate risk management initiative.
- *Tolerances:* Risk exposures in most instances cannot be eliminated in totality. Management should seek feasible solutions that hold risks at tolerable levels while ensuring that business objectives are achieved optimally.
- *Prioritisation:* Management should attempt to focus on areas where the quickest impact can be made with the least amount of resources. For example, the administrator could reduce unacceptable levels of risk by implementing effective management controls not previously considered. This does not mean that management should avoid longer-term exposures but that they should focus on areas that require minimal effort to improve overall control.
- *Information availability:* As discussed in section 7.4.4 of chapter 7, the availability of suitable information is necessary to ensure the success

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of the corporate risk management initiative. The availability of suitable information may be assisted by the implementation of a data warehouse (Dowd, 2001: 232-233). This type of application can aid management by providing various trends on key transaction types. These trends are obtained by processing large volumes of claim or premium data through the data warehouse environment. With regard to development, the data warehouse environment should be implemented according to the Administrator's approved project management methodology.

- *Allocate resources based on owner responsibilities:* Once exposures that require management have been identified, it then becomes the responsibility of the risk owner to resolve these anomalies. You may recall that the risk owner was identified during the source analysis phase of the uniform process discussed earlier.
- *Follow-up of high risks and escalate feedback:* This stage ensures that significant anomalies are not forgotten and that unresolved action points are escalated to senior management for further follow-up.

9.4. Facilitation

9.4.1 Facilitation techniques

As mentioned in table 7.1 of chapter 7, the chief risk officer, with the assistance of his risk management specialists, will act as business management's coach in assisting them in designing and implementing the corporate risk management architecture. To achieve this, they will require the use of flexible facilitation methods. Such methods require advance preparation and a structured approach to maximise chances of success (De Loach, 2001: 120).

Facilitation is defined as a method used to assist a group in achieving a common goal or aim (Cameron, 2001: 1-2).

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Key roles and responsibilities of personnel conducting such facilitation activities include (Cameron, 2001: 2-3):

- Ensuring that there is a clear risk management aim;
- ensuring that the right participants are involved;
- ensuring that sufficient planning is conducted before facilitation is initiated;
- ensuring that the facilitation process displays sufficient rigour;
- accurately recording and disseminating facilitation results; and
- ensuring good quality follow-up after the facilitation process as a means of identifying possible areas of improvement.

Choosing the correct facilitator assists in achieving an effective risk management programme. For this reason, the role of facilitation should be assigned to individuals who have previous experience in facilitation and have sufficient maturity to handle the various levels of management that will participate in the facilitation process. (Arthur Andersen, 2000).

The following three facilitation methods may be applied in the uniform risk management process (Arthur Andersen, 2000):

- *Group meetings*: This entails group meetings with the possible utilisation of voting technology. It is a useful approach when the business unit being assisted is interested in taking over risk assessment responsibilities but is reluctant to invest too much time or money initially. The specialist develops the topics for discussion, facilitates the meeting and analyses the results. Some guidelines relating to such facilitated group meetings include:
 - Participants attend as they have a contribution to make;
 - the meeting is run according to a pre-circulated agenda;
 - openness during all discussions is encouraged;
 - the facilitated meeting forms part of a larger process and everyone is informed of its progress;
 - keeping to the meeting agenda without major deviations;

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- always portraying a servant mentality in the group environment as opposed to a master mentality;
- learn to recognise and rely on non-verbal messages;
- end on a positive note; and
- additional responsibilities of the facilitator include (Dibble *et al.*, 1994: 97-104):
 - Noting when participant interest or energy is low;
 - noting when the meeting agenda is less effective and requires adjustment; and
 - noting when the group dynamic is poor and attendee participation needs to be reconsidered.

- *One-on-One interviews*: One-on-one interviews will be beneficial if the people that need to be interviewed are in various geographic locations. Interviews are also useful if there is a chance that the participants will not express their candid opinions in an open meeting. The specialist develops the questions, conducts the interview and analyses the results.

- *Survey*: Self-assessment surveys may be used as a transition tool to introduce the self-assessment concept to the company. The specialist develops the questionnaire, summarises and analyses the results. Guidelines to preparing suitable surveys include (Ferreira *et al.*, 2002: 12-15):
 - Questions should be in the recipients preferred language;
 - questions should be short and simple and addressed in a personal manner;
 - questions should be information orientated and should not be designed to place blame; and
 - feedback from the survey process is obtained as a means of identifying possible areas of improvement.

9.4.2 Facilitation in action

The selection of the most appropriate facilitation technique is key to ensuring buy-in into the overall corporate risk management initiative (Arthur Andersen, 2000).

In selecting the most appropriate facilitation technique, the risk management specialist should consider the environment in which the risk assessment is being conducted. Generally, group meetings require the largest degree of openness to ensure success, whereas survey based facilitation is more suited for a bureaucratic management environment. The following factors should be considered before a suitable facilitation technique is selected (ibid.):

- The organisation values empowerment, employee participation, openness and continuous improvement;
- the organisational culture can tolerate a reasonable degree of candidness;
- the organisation is ready for the kind of information the self-assessment approach may generate; and
- employees have a reasonable degree of safety, i.e. can they talk openly about what they feel regarding the current controls?

In risk management functions where the availability of qualified facilitators is a problem, the most talented should initiate the process by conducting one-on-one interviews and surveys and obtaining suitable external training until sufficient experience and courage is obtained. The utilisation of consultants to assist in transferring the facilitation techniques should also be considered. Facilitation skills can be taught, and they can be taught to nearly everyone. The so-called "natural facilitator" may exist, but the training courses available today are effective with the full range of personalities.

9.5. Corporate risk management in South Africa

Results of the local survey are featured below. These results relate specifically to the element of uniform process and quantification techniques applied within the corporate risk management programme:

Scales applied in the empirical study were as follows:

<i>Importance</i>	>8 = Crucial.....7.....6 = important.....5.....4.....3 = cognisant.....2..... 1 = unnecessary.....0 = N/A
<i>Organisational Status</i>	>8 = Managed/optimised.....7.....6 = defined.....5.....4..... 3 = repeatable.....2.....1 = initial/rudimentary
<i>Difficulty in Implementing</i>	>8 = Major restructuring required.....7.....6 = six to twelve months management attention needed.....5.....4..... 3 = 1 to 3 months management attention.....2..... 1 = no problems encountered

Figure 9.5: Empirical study results: uniform process phase

Criteria below detail the action steps followed within the adoption of uniform process phase of a corporate risk management programme.

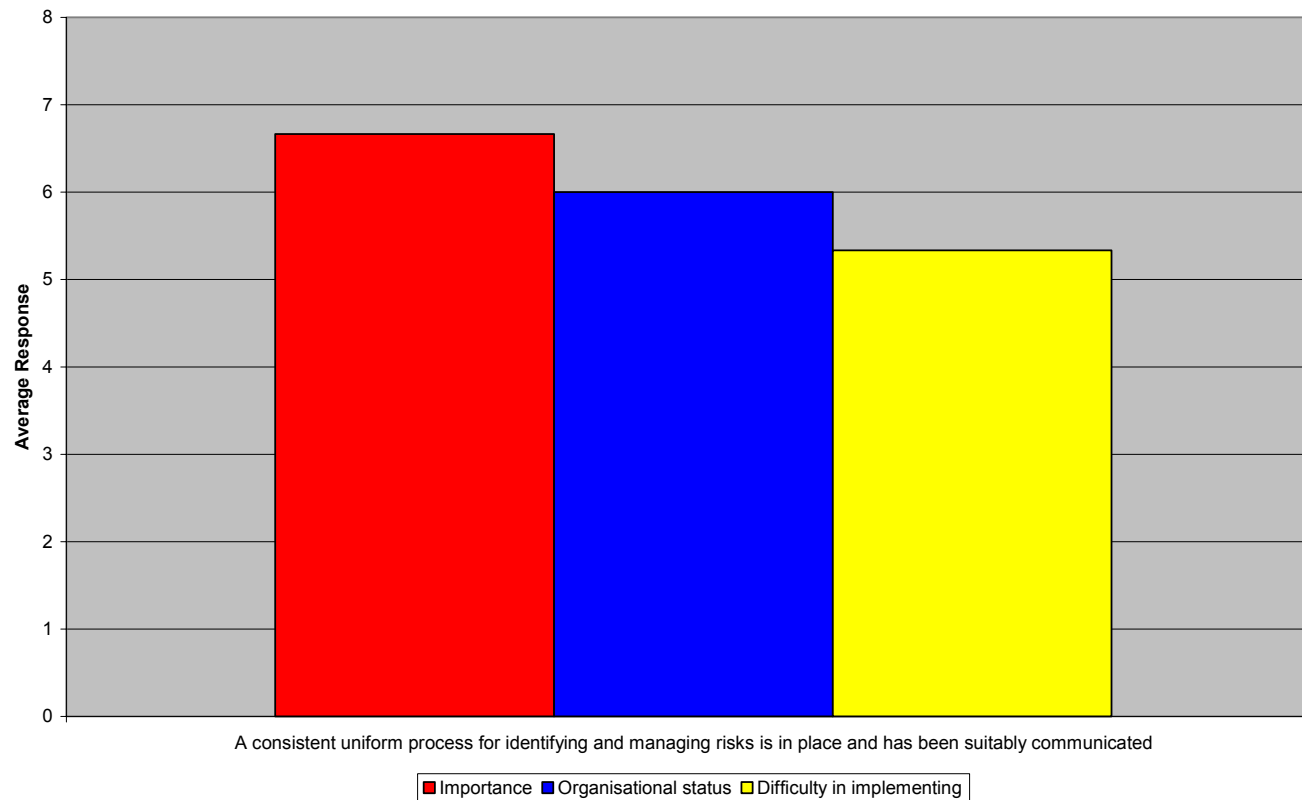


Figure 9.6: Empirical study results: extent of risk quantification techniques

In quantifying the extent of risk, which types of risk quantification techniques are used?

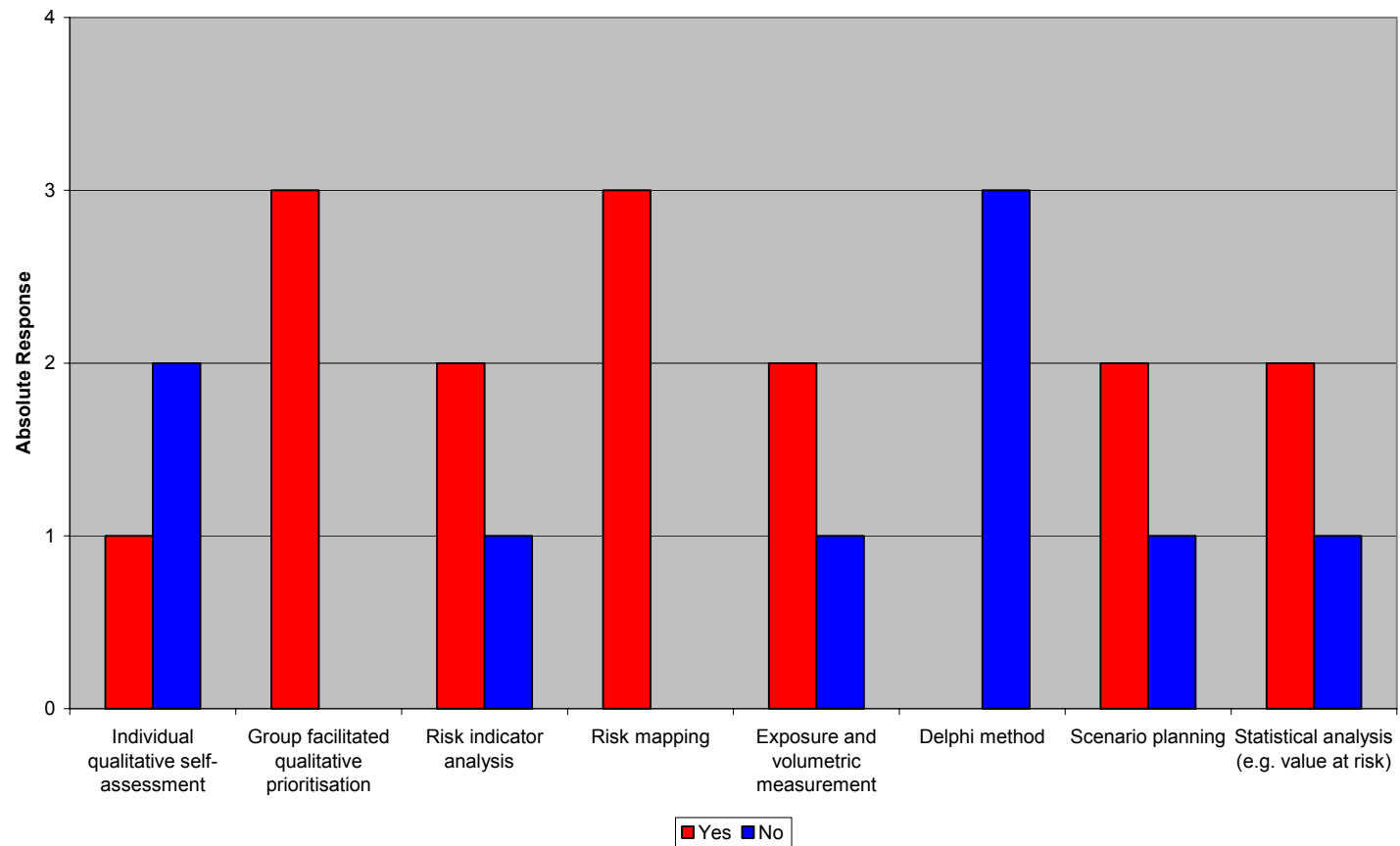
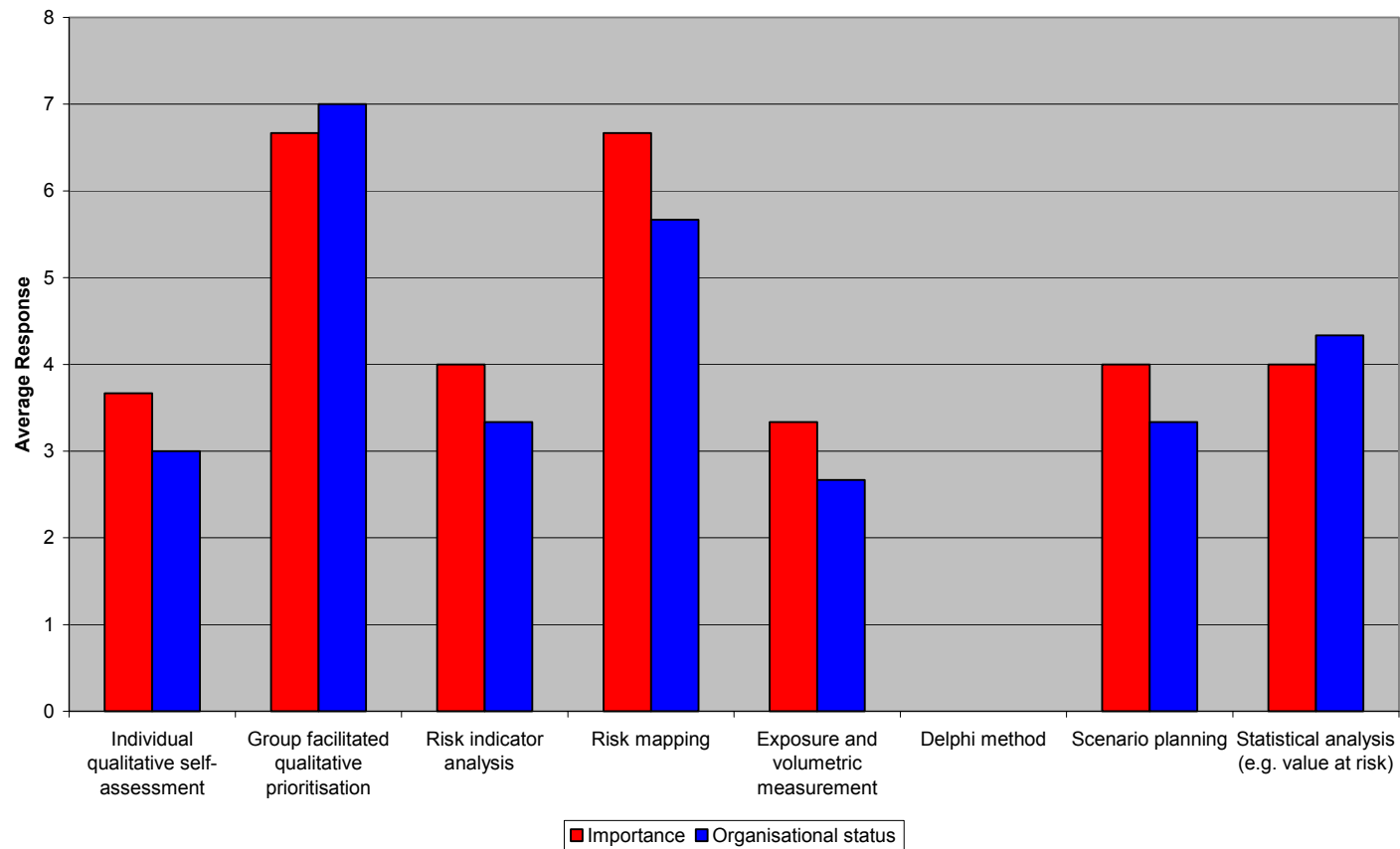


Figure 9.7: Empirical study results: importance and organisational status of risk quantification techniques

The importance of the various types of risk quantification techniques and their utilisation status within the industry



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Based on the abovementioned responses, the most noteworthy issues raised include:

- Respondents concurred that a need existed for a consistent risk management process. It was pleasing to note that respondents believed they had made significant inroads in adopting a uniform process even though it was considered relatively difficult in implementing.
- The most utilised risk quantification techniques included group facilitated qualitative prioritisation and risk mapping. The group-facilitated technique was the most advanced in terms of implementation status within healthcare administration organisations.
- The delphi method was not applied by any of the respondents as a means of quantifying risk.

9.6 Summary

Chapter 9 introduces the concept of a uniform risk management process, which includes the key phases of identification, source analysis, quantification, evaluation and management:

- *Identification:* Risk mapping and scenario planning are highlighted as techniques, which could be used in identifying key risks.
- *Source analysis:* Source analysis is the focused evaluation of why, how and where exposures may happen. This classification process will assist in ascertaining which risks are driven by external or internal factors
- *Quantification:* Common quantification techniques include:
 - Group facilitated qualitative prioritisation;
 - individual qualitative self-assessment;
 - risk mapping;
 - risk indicator analysis;
 - exposure and volumetric measurement;
 - statistical analysis; and
 - scenario planning

The quantification process may vary in sophistication. This degree of sophistication is driven by a selection of factors.

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- *Evaluation:* Concerned with the plotting of risk exposures against approved tolerances and the identification of unacceptable levels of remaining risk.
- *Management:* The development of suitable action plans, allocation of resources to address risk exposures and the suitable follow-up of significant risk issues.

The use of group meetings, surveys and one-on-one interviews are introduced as facilitation techniques in aiding the uniform process. The key roles and responsibilities of the facilitator are also introduced.

The following significant issues are identified from the empirical study conducted:

- Respondents believed they had made significant inroads in adopting a uniform process within their own organisations; and
- the most utilised risk quantification techniques included group facilitated qualitative prioritisation and risk mapping.

9.7 Conclusion

A uniform process will better equip management to identify the exposures, sources of uncertainty and opportunities thereby allowing for improved value adding to all key operations within the healthcare administration organisation.

The reason for the uniform process being of such paramount importance within the corporate risk management methodology is that suitable risk management strategies cannot be applied until the healthcare administrator has identified and understands the source of risks and has suitably quantified the extent of the relevant exposures.

The role of facilitation in lubricating the uniform process should not be underestimated. Effective facilitation will ensure that complete and accurate risk management inputs are obtained and converted into meaningful

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information for the trustees and senior management team of the medical scheme.