



Talking “risk”

by Peter Janus, Risk Manager,
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The recent economic downturn has spurred many to comment on the role of risk in the current financial crisis. Many financial commentators believe that the financial sector did not adequately consider or wage risk, particularly in mortgage lending in the USA.

common knowledge of risk management practice would have been needed, which currently does not exist.

Alcoa's journey

Alcoa¹⁾ of Australia started its formal enterprise risk management journey some ten years ago. The initial goal was to ensure that future capital projects be delivered on time, within budget and with the benefits promised. But in order to achieve this, a new approach to risk management was required.

External buy-in

Rarely do professionals responsible for assessing and measuring risk make decisions on how it will be managed. Rather, it is often external parties and stakeholders – suppliers, the community, regulators, etc. – who have a great deal of influence on these decisions.

These stakeholders, therefore, need not only to be familiar with risk, its concepts and processes, but also to share a harmonized understanding of these principles; otherwise they will be unable to make critical decisions on whether the risk management plans are acceptable to them.

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The risk management framework that Alcoa developed based on AS/NZS 4360 helped both its internal and external stakeholders to understand how the company manages risk, and to buy into that process.

Two-way street

Communication is a two-way street. Both the speaker and the listener have to be able to understand each other. Anyone who works in an international capacity will know the frustration of working in different jurisdictions with different standards, and of having to sell the process before being able to begin the work.

Those that work globally in English-speaking countries will have heard

1) Alcoa is a leading producer and manager of primary aluminum, fabricated aluminum and alumina facilities, and is active in all major aspects of the industry.



The commentators assume that not only should the financial sector have identified and assessed these risks, but they also should have known how to communicate them to their stakeholders – the investors who bought into those securities.

Equally, the commentators assume that these stakeholders would have understood what was being communicated to them. But for that to be the case, a shared

With a diverse mix of engineers, coming from a wide range of disciplines and representing a global organization, Alcoa found a need to establish a common framework and reference points for risk. The Australian and New Zealand Standard AS/NZS 4360, *Risk management*, was used to develop that framework. And it has stood the test of time. Today, the framework has been widely deployed throughout the global organization.

Main Focus

of the maxim “we are divided by the use of a common language.” The only way to overcome this is to work from a standard that provides a common understanding of key concepts, supported by a glossary of definitions. Without such a tool, it is difficult or even impossible to communicate risk effectively.

Having a recognized standard has been key to the success of risk management within Alcoa. And risk management is now a fundamental aspect of its decision-making processes. The challenge going forward will be to move towards an International Standard, accessible to all relevant players and stakeholders in the global community. Such a standard will soon be available as ISO 31000, *Risk management – Principles and guidelines*.

A whole new level

The fact that so many nations have worked on the development of ISO 31000 gives it great credibility. The standard will provide a vehicle for the risk profession to harmonize concepts, irrespective of the country. It will overcome confusion and help stakeholders to understand the risks that are being communicated.

About the author



Peter Janus is Risk Manager for Alcoa Worldwide Alumina, Australia. He is a fellow of the Australia and New Zealand Institute of Insurance and Finance, a

member of the Risk Management Institution of Australasia and a registered certified practising risk manager. Mr. Janus has spent over 30 years in the risk industry. During his career Mr. Janus has been an insurance underwriter, as well as an insurance broker. Recently, he has been developing enterprise risk management tools to assist his organization meet its business objectives. Mr. Janus was the recipient of the 2004 the Risk Management Institution of Australia's risk manager of the year award.



Alcoa, as an international corporation, will be an early adopter of ISO 31000. The standard fits well with its current framework and objective to integrate the world's best practice in risk management to support and enhance business activities in all areas of its operations. ISO 31000 is perceived as the next step in the development and improvement of the company's risk management journey.

a shared understanding of risk and risk management practices, which in turn will improve risk communication.

In this way, ISO 31000 has the power to redefine risk and risk management.

Future community commentators on risk will know what questions to ask, how to critically investigate risk-taking, and maybe, even contribute to preventing a future financial crisis. ■

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Alcoa sees many advantages in having all countries where it operates (some 34 countries around the world) work from a common risk management framework, supported by their own individual country risk management communities.

Redefining risk

A number of public commentators on the financial crisis have asked the question: is risk management a failure? But perhaps we should be asking: is risk communication a failure?

Wide adoption of ISO 31000 will, I hope, go a long way to ensuring we have

