An evaluation of approaches adopted by various departments in implementing integrated risk management in the Eastern Cape Provincial Government.

By

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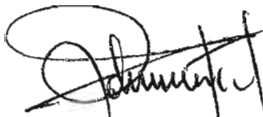March 2006

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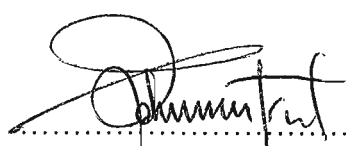
Sincerely

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This research has not been previously accepted for any degree and is not being currently submitted in candidature for any degree.

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ABSTRACT

The current business environment demands a more integrated approach to risk management due to the complex interrelationship and reliance across all divisions of an organisation. It is no longer sufficient to manage risk by individual or functional area. Organisations around the world now benefit from a more comprehensive approach to dealing with all risks.

The study has been influenced by the Treasury Board of Canada Secretariat's (TBS) Integrated Risk Management Framework (IRM). Its aim is to promote and increase awareness of IRM across all departments in the Eastern Cape Provincial Government (ECPG). The study establishes progress towards implementation of IRM. The research scope covered thirteen government departments in the Eastern Cape. The study includes researching recent best public and private integrated risk management practices, both internationally and locally. The approach included development of a questionnaire on best practices and on principles of Integrated Risk Management based on TBS Integrated Risk Management Framework. Interviews were conducted and results documented to understand perceptions of the adequacy of current risk information in various departments and to discuss possible improvements to IRM. The process of collecting data for this study allowed information sharing with each department regarding current IRM Practices, and stimulated discussion on the nature and importance of IRM and actions that could move IRM forward.

The research highlights key elements of IRM and establishes the progress by departments in implementing these elements. It also focuses on techniques and approaches that are used by the departments in dealing with IRM implementation. It uses Risk Management Maturity Continuum developed by Deloitte & Touché to determine extend to which departments have implemented their IRM.

Lastly, the study highlights tools and techniques for strengthening of implementation of IRM based on best practices and conclude by making recommendations.

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CHAPTER 1   INTRODUCTION

1.1   Introduction

The emergence of the risk management philosophy has given a different profile, meaning, definition and stance to the traditional and stereotyped risk management definition. This requires an analysis of risk management, in particular the profile and the role of both the risk management function and the risk manager.

The emphasis has shifted significantly towards the management of risks on an integrated enterprise basis through a common framework, as depicted in leading governance codes. Thus risk management has evolved, in recent years, from ad hoc and mainly functional activity to strategic corporate function.

Typically, in a sizeable diversified organisation, a Chief Risk Officer and Risk Managers assist management in the execution of the risk management process. Chief Risk Officer usually heads the risk management function. Importantly, however, is that the risk management function should be functionally embedded in the organisational structure. The King II Report (2002) emphasises that risk management should constitute an inherent operational function and responsibility.

The magnitude and essence of Integrated Risk Management, directly and indirectly encompassing disciplines such as change management, strategic planning, budgeting and the like, are indicative of the skill risk managers needs to process.

Risk management systems in government tend to be policy-domain-specific. Most are directed towards policy, that is, focus on achievements of public policy objectives rather than business risks and some are focused on risks to third parties than risks to producer organisations.

In principle, a case could be made for a more generic approach that involves the integration of business risk management techniques into management control and organisational strategy in the public sector.

An integrated business risk management approach offers the possibility for striking a judicious and systematically argued balance between risk and opportunity in the form of contradictory pressures

for greater entrepreneurialism on one hand and limitation of downside risks on the other that are experienced by contemporary sector managers. This study focuses on approaches, tools and techniques as used by managers in implementing Integrated Risk Management in government departments. It is aimed at providing guidance to advance the use of a more corporate and systematic approach to risk management.

It will also contribute to building a risk-smart workforce and helps create an environment that allows innovative methods of dealing with risks and responsible risk-taking while ensuring legitimate precautions are taken to protect the public interest, maintain public trust, and ensure due diligence. The study will propose a set of approaches to risk management practices that departments can adopt, or adapt, to their specific circumstances and mandate.

1.2   Background of the study

Section 195 of the Constitution of the Republic of South Africa, 1996, provides normative principles for public administration. Flowing from these principles, the Public Service Regulations promulgated in terms of the Public Service Act makes, inter-alia, provision for the implementation of Integrated Risk Management framework for the Public Service. This is anchored on the principles of effective planning and accountability. In order to comply with the defined planning requirements, Public Service Institutions are in need of customised tools. For this purpose, Integrated Risk Management can be regarded as one of a range of tools to support planning processes for service delivery.

The roles and responsibilities for the implementation of risk management are contained in the Treasury Regulations published in terms of the Public Finance Management Act (PFMA), 1999. The PFMA sets the framework for accountable financial budgeting and financial administrative activities in departments. In this regard, risk management is an important mechanism to support financial planning and accounting activities within departments.

Corporate risk management is evolving rapidly in the private sector but the practice of risk aggregation is not yet widespread in the public sector, specifically government departments. Instead, the institutional organisation of the typical departments tends to isolate and manage risks by type. Risk management has in the past been dealt with in a solo approach without effective integration of the efforts of managing risks.

According to King I Report (1994), a need for the public sector to develop framework for risk management is emphasised. The International Federation of Accountants (2000) concur with the statement by King I Report for the public sector entities to ensure that effective systems of risk management are established as part of the framework of internal control and responsibility to the shareholders.

In light of the above, Parliament continues to encourage departments to adopt a coherent approach to managing risks which is likely to lead to sustainable improvements in public services. A workshop conducted in March 2001 for the Eastern Cape Provincial departments on risk management commissioned by the department of Public Service Commission (PSC) revealed an acceptance of a risk management culture.

According to the participants in the workshop,
"Formal commitment to risk management processes exists at the highest institutional levels in all Eastern Cape Provincial departments. The awareness levels regarding the application of risk management as a day-to-day management tool are relatively low at all institutional levels".

The implementation of national initiatives without proper consideration for provincial realities (landscape, resources, capacity, etc.) poses a serious risk for service delivery in the Provincial Administration. Participants in the workshop highlighted the need for an integrated framework on risk management to assist implementation. However, without the in-house expertise, it is problematic to manage consultants tasked with implementing processes.

As Hillson (2000) suggests, risk management is not a simple process of identifying techniques, sending personnel to training courses, buying software and getting on with it. Risk management ranges from the occasional informal application of risk techniques to specific projects, through routine formal processes applied widely, to a risk-aware culture with proactive management of uncertainty.

1.3 Motivation for the study

The importance of Integrated Risk Management has been growing steadily during the last several years. There is increasing awareness and expectations in private sector of the need to manage risks. With increased demand by parliamentarians for greater transparency in decision-making, better educated citizens, globalisation, technological advances, and numerous other factors, adapting to change and uncertainty while striving for operating efficiency is a fundamental part of the Public Service. Such an environment requires a stronger focus on Integrated Risk Management practices within organisations in order to strategically deal with uncertainty, capitalize upon opportunities, and inform and increase involvement of stakeholders to ensure better decisions in the future.

1.4 Value of the research

All manner of risks are present throughout government operations. Successful delivery of a program is contingent upon effective and cohesive management of risks. Risk management can be cost-effective when departments assess their risks properly and determine the most economical way to avoid them entirely, or reduce them to a minimum.

A systematic, integrated but adaptable approach to risk management requires organisations to build capacity to address risk explicitly, to increase the organisations and stakeholders' confidence in its ability to minimise risk and increase profit potential. It contributes to better use of time and resources, improved teamwork and strengthened trust through sharing analysis and actions with partners.

In emphasizing the need for more active and frequent consultation and risk communication, an integrated approach to risk management leads to shared responsibility for managing risk. It also increases confidence in the organisation's process, and improves public and stakeholder understanding of trade-offs.

This study will provide guidance to departments in implementing their risk management frameworks. It will assist the departments in benchmarking their risk management processes against those already adopted by the private sector and other government departments in other Provinces, National Departments in South Africa and the rest of the world.

1.5 Problem statement

Successful organisations which have implemented Integrated Risk Management usually map their risk management efforts to some key aspects of their business strategies. Consequently, an integrated approach must be used to address the main aspects of any risk management. This integrated approach is normally used to encourage risk management teams and risk champions working in active risk implementation to share their experiences and knowledge on risk.

Worldwide government departments are responsible for a range of diverse services for citizens such as the payment of social benefits, support for business, provision of health care and education, regulating industry and protecting the environment, they are exposed to risks more frequently. These risks in particular occur as a result of unplanned events or circumstances arising, which result in services not being delivered on time or not responding to sudden changes in demand for them.

The handling of risks to the government departments has become more challenging in recent years, as information sources multiply and public expectations change. An increase in fraud and corruption is an indication of a lack of internal controls and the inability of the departments to implement risk management systems. Most government departments currently manage their risks using traditional solo approaches. Those departments that claim to have started using the integrated approach are not reporting any improvements on risk management. The tendency of the departments is to delegate the risk management function to their internal control units.

This research emerged from an interest in the study of how government departments in other countries implement Integrated Risk Management, what strategies, tools, techniques they use and how their Integrated Risk Management practices could impact the handling of risk.

In this research, the investigation is around the following research questions:

1. Will the government departments in the Eastern Cape Provincial Government manage risks without a coordinated approach with other business units?
2. Has the top management taken steps to ensure that effective systems of risk management are established as part of the framework of internal control?
3. How can departments successfully integrate risk management into other management processes?

4. How can departments successfully implement Integrated Risk Management

1.6 Objectives of the study

The study is aimed at:

- Providing guidance to advance the use of a more corporate and systematic approach to risk management.

- Contributing to building a risk-smart workforce and environment that allows for innovation and responsible risk-taking while ensuring legitimate precautions are taken to protect the public interest, maintain public trust, and ensure due diligence.

- Providing practical strategies that foster sustained commitment to risk management from staff at all levels.

- Proposing a set of risk management practices that departments can adopt, or adapt, to their specific circumstances and mandate.

- Providing guidance to departments on how to successfully overcome barriers to implementation of Integrated Risk Management by identifying unique challenges to successful implementation in the public sector including access to information and the political exposures that accompany traditional approaches to reporting audit findings and observations.

- Providing guidelines on how to meet government and public expectations relating to risk management, internal audit and evaluation, add more visible value while containing or reducing total spending

- Lastly, the study provides strategies, skills and knowledge necessary to earn and retain equivalent roles currently emerging in the public and private sectors.

1.7 Research methodology

The researcher will be attempting to make inferences from a sample's characteristics by using a statistical study where the hypothesis will be tested qualitatively and quantitatively. The research study will be exploratory in nature. The researcher is planning to use an ex post facto design. The purpose of the study is causal in nature.

As the researcher is interested in tracking changes over time, a longitudinal research will be a perfect choice but because of the budget limitations and time constraints, a cross-sectional design will be

used. Since there will be no control group all variables will be measured at the same time via interviews and or telephone conversations. One hundred and eighty (180) respondents from thirteen government departments in the Eastern Cape will form part of the sample. The total population of employees in senior and middle management in the province is approximately 4000.

Members of the sample are selected using a judgment sampling method. The study focus will be on top management and middle management.

1.8   Limitations of the project

This research did not test the quality of a department's public sector risk identification and assessment, participants were asked if their departments' main risks have the potential to impact on the business of other organisations and/or on the whole of Eastern Cape.

All participants in the study will be selected from the Head Office for each of the departments. The research does not cover the public entities and agencies, which are operating under some departments. These entities play a crucial role as service delivery agents for their respective departments. The budget and time constraints pose as major limiting factors to the study. It is desirable to know how the Eastern Cape compares with other provinces and the national departments.

1.9   Structure of the study

Chapter two of the study will focus on the theory and models on Integrated Risk Management. This includes literature review. The study adapts the Canadian model on Integrated Risk Management.

Chapter three focuses on research methodology. It will focus on the research design, identifying data requirements, data collection plans and procedures; operational definitions of variables; and will focus on the reliability and validity of instruments used in the study.

Chapter four focuses on the analysis and interpretation of results of data.

Chapter five highlights the implications, recommendations and the limitations of the study. It will focus on areas of future research and finally the conclusions.

1.10 Summary

The chapter provides a brief overview of the research conducted. The background of the study emanates from the inability of government departments to implement an integrated approach, posing a serious risk for service delivery. The researcher was interested in knowing how departments in other countries are striving to successfully implement Integrated Risk Management. The research contributes to better use of time and resources, improved teamwork and strengthened trust through sharing analysis and actions with partners. The problem statement looks at the current events that raised the interest of the researcher to conduct the study. The primary objective of the study is to provide guidance to advance the use of a more corporate and systematic approach to risk management. The researcher uses statistical study where the hypothesis is tested qualitatively and quantitatively. The chapter highlights the inability of the researcher to cover public entities as limitations to the study.

CHAPTER 2   LITERATURE REVIEW

2.1 Introduction

Chapter 1 have identified the purpose of the study and described the research methodology used to obtain the research findings. The focus in this chapter will be to review all the relevant literature with the object of facilitating the understanding of the basic concepts of Integrated Risk Management. This chapter will discuss Integrated Risk Management, different approaches, tools and techniques to implementing Integrated Risk Management. Finally the chapter selects a model that is used as the base for implementing Integrated Risk Management.

2.2 Definition of Integrated Risk Management

Integrated Risk Management is a continuous, proactive and systematic process to understand, manage and communicate risk from an organisation-wide perspective (Treasury Board of Canadian Secretariat (TBS): 2001). It is about making strategic decisions that contribute to the achievement of an organisation's overall corporate objectives. Risk management requires an ongoing assessment of potential risks for an organisation at every level and then aggregating the results at the corporate level to facilitate priority setting and improved decision making. An integrated business risk management approach offers the possibility for striking a judicious and systematically argued balance between risk and opportunity in the form of contradictory pressures for greater entrepreneurialism on one hand and limitation of downside risks on the other that are experienced by contemporary sector managers.

2.3 Integrating Risk Management into other Processes

Risk management should become embedded in the organisation's corporate strategy and shape the organisation's risk management culture. The identification, assessment and management of risk across an organisation help reveal the importance of the whole, the sum of the risks and the interdependence of the parts.

Effective risk management cannot be practiced in isolation, but needs to be built into existing decision-making structures and processes. The process of integrated risk into other business management functions in an organisation cannot be left to junior or middle managers. Senior managers have to take control and manage the risks.

Although the objectives of managing risk in the private sector differ to those in the public sector, research by Stulz (1994) suggests that for better outcomes, risk have to be integrated to other business functions in an organisation.

Culp, Miller and Neves (1993) argue that most businesses use value at risk (VAR) approach to comprehensively manage risk. Smith and Stulz (1985), Froot, Scharfstein and Stein (1994), Culp and Miller (1995) are of the opinion that most financial distress-driven explanations of corporate risk management, whether value or cash flow risk, center on a Integrated Risk Management's total risk.

One of the modern approaches to risk management is to incorporate it into other business functions. Lewis and Mody (1997) supports the view of using Integrated Risk Management systems as the approach vastly improves government's ability to manage and control risk.

The integrated approach enhances the efforts to improve the allocation of resources in the domestic economy. According to Cooper (2001) risk management in an organisation should form part of day to day management and it should be integrated with strategic, business and project objectives and plans. Risk management therefore requires commitment and ownership from the senior managers.

According to Meulbrook (2002) integrated approach to risk management requires a thorough understanding of the Integrated Risk Managements operation, as well as its financial policies. It is therefore becomes a responsibility of senior managers. It cannot be delegated to consultants, nor can management of each individual risk be delegated to separate business units.

Despite this increasing consensus on the value of Integrated Risk Management, effective implementations of risk management processes into organisations and projects are not common.

Hillson (2000) argues that those who have tried to integrate risk management into their business processes have reported differing degrees of success, and some have given up the attempt without achieving the potential benefits. In many of these uncompleted cases, it appears that expectations were unrealistic, and there was no clear vision of what implementation would involve or how it should be managed.

2.4 Managing Risk Exposure

According to Lewis and Mody (2001) the goal of corporate risk management today is not to manage a fixed set of risk exposures of an enterprise but to determine the areas and lines of business in which a company is willing to retain risks in order to generate target returns. An integrated approach to corporate risk management helps Integrated Risk Management optimise the trade-off between risk and return so as to maximise the Integrated Risk Management's overall risk-adjusted rate of return on equity and its shareholder value.

Lewis and Mody (2001) in their model suggest that Integrated Risk Management can be performed over six major functions. These include identifying the organisation's risk exposures; measuring or quantifying those exposures; assessing the organisation's tolerance for risk-bearing; making strategic decisions on the allocation of resources to support risks that are borne and implementing risk mitigation and control mechanisms to prevent unintended losses on those risks. Organisations should establish systems to continually monitor and reassess the risk management's risk exposure over time.

2.5 Approaches to Implementing Integrated Risk Management

The government's exposure to loss can rise from a wide variety of events. Attempting to account for every source of exposure is not feasible. A systematic approach to identifying the principal risks is indeed to ensure that all relevant exposures of a program within a department can be classified.

2.5.1 Top-Down Direction, Bottom-Up Assessment

One approach to risk assessment is that adopted by some federal regulators of financial institutions in the United States and Europe. With limited staff resources federal regulators have evolved a top-down, risk-focused approach for conducting risk management examinations of financial institutions. Regulators first examine an enterprise's general categories of risk (financial, business, operational and event risks) then focus their scarce resources on the highest risk areas.

Treasury Board of Canadian Secretariat Report (2001) suggests that practicing Integrated Risk Management begins with top-down direction to put the organisational approach into practice the policy or framework, objectives, operating principles, common language, and process approved by senior management. The organisational approach has been broadly tailored to fit the organization,

based on the key risk areas, mitigating strategies, and capacity strengths and gaps identified in the corporate risk profile. The risk champion or specialist group provides implementation advice about how and when to introduce and practice Integrated Risk Management and co-ordinates its implementation.

When working well in mature practice, Integrated Risk Management is seamless. For initial implementation, it helps to think of three levels of practice: corporate (organization-wide, highest level), business line (major functional area or unit), and all other areas (programs, major projects, activities, and processes). Some approaches characterize these levels as strategic, management, and operational or use other terms suited to their situation. Some organisations may include additional levels or categories, for example, they may consider programs and major projects separately.

Ceske, Hernandez & Sanchez (2000) and Nottingham (1997) also suggest using a similar approach to that of TBS. Using this approach a government can access its own risk exposures in a particular program. Top down approaches are particularly useful as starting point to quantifying operational risk. They argue for the use of the top-down approach because by using it the government can focus resources on those risk categories, classes, or risk types for which exposure is greater. This approach economises on scarce resources and it minimizes disruption that may be caused in the private sector by excessive government audits.

Once the department goes through the process of identifying the risks it faces and gains a better understanding of its risks exposures, the valuation or quantification process can begin. The techniques used in quantifying risks depend on the type of risk being analysed. However, this approach mainly focuses at corporate level with no information at the business process level and has a limited value for risk management.

A bottom-up approach on the other hand represents the highest level of specialization to risk management. It captures the idiosyncrasies of specific business units or processes and the quality of their associated control environments. This method requires costly development of detailed models and should be used when significant resources are available with strong senior management commitment.

Ceske, Hernandez & Sanchez (2000) also suggest hybrid approaches to risk management. These approaches use a combined methodology where some business units have sophisticated operational risk measurement and management tools and techniques in comparison to other business units with minimal operational risk management attention. These approaches, may, however, not provide a comprehensive view of all risk exposures as they usually produce conflicting results.

2.5.2 The Sevens Models

Bradshaw and Willis (1998) introduced seven models which can be used to focus attention on risk. Their models also provide eleven propositions and a set of questions for directors, managers and service providers.

They argue that the broader definition strains the commonly understood meaning of risk and has the effect of making risk management encompasses virtually all of management, at which point the words start to lose meaning. They suggest opportunity should be addressed separately from risk because it takes two different mindsets to assess risk and to assess opportunity. They advance three reasons on why managers find their models helpful as support to the decision-making process. These include, firstly, the pace of change makes it less likely that patterns observed in prior experience will be reliable guides to current action.

Secondly, decisions require consideration of an increasingly complex web of interrelated factors. Thirdly, the magnitude of the consequences of faulty decisions makes worthwhile the cost of achieving additional rigour through the use of the models.

2.5.3 Modern Approaches to Integrated Risk Management

Nottingham (1997) suggests that Integrated Risk Management must cover all aspects of the business and its activities, from strategy to operations, and all types of risk, operational, legal, reputation and financial. She sees Integrated Risk Management as a framework to pull together a variety of disciplines in the organisation that address both sides of risk, minimising uncertainty and maximising opportunities. According to her, the critical difference between traditional risk management and Integrated Risk Management is that Integrated Risk Management is as much directed to grasping new opportunities as to minimizing losses (the traditional focus of risk management).

The leading factors to the implementation of Integrated Risk Management in organisation are the increasingly rapid pace of change enabled by technological innovation; new organisational structures and management processes; spectacular, high-profile failures; downsizing; globalisations; expanding and changing expectations from shareholders and stakeholders; and, calls by regulatory bodies to disclose control frameworks and risk exposure (King II, 2002).

According to Nottingham (1997), there is no single, comprehensive approach to Integrated Risk Management. The risk management approach and the processes and structures selected for risk management are molded in response to the organisation's vision, goals and the risk tolerance of shareholders, management and other stakeholders.

Nottingham's approach to risk management is based on four basic fundamental elements. These include:

(i)   A framework for risk management;

(ii)   A top-down-driven and –supported risk management policy, approach and processes;

(iii)   A champion or central co-ordination point to ensure the risk management system is implemented and sustained; and

(iv)   Organisation-wide risk management processes.

A multi disciplinary team in an organisation should develop a risk management framework in order to:

(a)   Situate an organisation in its risk context;

(b)   Help an organisation to identify and source business risks and their relationship to, and impact on that organisation;

(c)   Help to clarify the interdependence of risk and to separate causes and effects; and;

(d)   Suggest the necessary organisational controls and the proper allocation of resources to manage the risks.

The risk management policy should demonstrate the organisation's commitment to the process. Such a huge task demands top-level support. The key objective of any risk management policy should be to make risk management the business of everyone in the organisation. This view is also supported by Ceske, Hernandez & Sanchez (2000).

Risk management processes must be structured such that each area of the organisation and all employees take ownership and are accountable for the risk associated with their function. Risk management policy must also set out the organisation's broad tolerance and limits for risk exposure for each area of the organisation, as well as the risk assessment processes.

Organisations use a number of qualitative, quantitative and semi-quantitative measurements and methodologies to assess risks and their level of acceptance. Once an organisation has assessed and prioritised its risks, it can determine the necessary response. Training is essential to create a common process developed centrally but implemented locally and to build the employees' capacity to take ownership for risk management within their spheres of authority and accountability.

As risk management methodologies are rolled across all organisations, it becomes possible to quantify all forms of risk facing an organisation to create an overall risk profile and identify total risk exposure. Armed with this figure, management and the board could clearly communicate the risk, reward and dangers of the organisational strategy. Comparable quantification of all risks would allow the organisation to compare the risks and rewards of different strategies and scenarios.

The Q850 model developed for The Canadian Standards Association Technical Committee on Risk Management in 1997 pays great attention to incorporating risk perception and risk communication into decision process. Risk perception and risk communication are addressed in detail to provide a sound understanding of these key concepts. The model builds risk communication into the process through steps which advise that the acceptability of risks to stakeholders is vital to risk management.

Powell and Leiss (1997) outline the crucial role of risk management in dealing with public controversies and analyse risk communication practices and malpractices to provide a set of lessons learned for risk managers and communicators. Their argument is based on the fact that institutions routinely fail to effectively communicate the scientific basis of high profile risks.

They argue that these failures to inform the public make it difficult for governments, industry and society to manage risk controversies sensibly, thereby resulting in massive and oftentimes unnecessary incremental costs.

Dembo and Freeman (1998) provide a forward-looking approach to risk management. They define financial risk as a measure of the potential changes in value that will be experienced in a portfolio as a result of differences in the environment between now and some future point in time.

Their main elements of forward-looking risk management are:

(i)	Time Horizon:	Period of time to consider over exposure to risk
(ii)	Scenarios:	Events that could unfold in the future and how would they affect the value of investments.
(iii)	Risk Measure:	The unit used to gauge exposure to risk
(iv)	Benchmarks:	Set up points of comparison against which performance can be measured.

Dembo and Freeman (1998) introduce the risk concept called Regret which is associated with the feeling one will have for given outcomes. In their approach, they set out series of risk rules for making decisions. These include choosing an appropriate time horizon; selecting scenarios; computing Value at Risk (VAR); assessing both the upside and the downside of potential deal; calculating Regret; and, compiling a reliable Regret matrix.

Lind, Nathwani and Siddall (1991) suggest that the process by which safety decisions are made is faulty because a rational framework is lacking. According to them progress in the management of risk is possible if an open accounting is rendered of the risks and benefits. Maximising net benefits to society among reasonable alternatives should be a guiding principle and provides a framework for the implementation of this principle. Objectives and analytical approaches to the assessment of risk should be pursued because actions based upon perceived risk cannot be relied upon for good decisions in the public interest.

Wilde (1994) introduced target risk as a model for risk management. His theory of Risk Homeostasis provides insights into human risk-taking behaviour. Its arguments are primarily based in the fields of safety and health but its concepts can transcend any discipline.

He defines risk homeostasis as the degree of risk-taking behaviour and the magnitude of loss due to accidents and lifestyle-dependent disease are maintained over time, unless there is a change in the target level of risk.

Leiss and Chociolko (1994) explore the issue of the public's pervasive risk-averse attitudes. In their opinion, one of the chief sources of citizens' overestimation of risk is vague, intuitive familiarity with the long history, stretching back to the origins of the industrial revolution of the calculated under-assessment of risk by industry and government in particular the willful neglect involved in the exposure of workers to hazardous substances and processes. The authors go on to suggest that there is no venue in which debate over acceptable risk / benefit trade-offs can take place. The lack of venue helps each party to avoid hold on what are called acceptable risk/benefit trade-offs.

Their proposal suggest some useful lessons about how various risk contingencies (corporate / government, labour / local community, public interest constituencies) could manage risk through negotiated consensus about apportioning responsibility.

FAA Review Team (1998) provides a common basis for understanding the concept of business risk management across the federal government and also to provide departments and agencies with a framework for the integration of business risk management into their decision-making processes. The guide offers a standardized process for identifying, assessing and managing risks in federal government context. According to the guide, the definitions of risk and related concepts tend to focus mostly on the downside, and do not appear to sufficiently recognize the risk /reward equation or the value of using systematic risk assessment to determine the appropriateness of pursuing opportunities or initiatives.

McQuillan (1994) suggests that because of less financial resources than in previous decades, decisions must take into account the very high cost and low benefit of controlling some risks. Organisations have to explain to the public as clearly as possible the need to balance costs against benefits. Public expectation has been to favour zero risk when they were not explained that it is not a free good. According to McQuillan (1994) governments deal poorly with the public and media in the area of education and consultation on issues of risk management. Government usually underestimates the ability of the stakeholders to understand such discussions. The Colloquium report

noted that participants identified high expectations of politicians, rigidities in the bureaucracy, a general lack of innovation and the unacceptability of making mistakes as public sector barriers working against making improvements in management of risk.

As D'Arcy (2001) suggests, the impetus for enterprise risk management arose when the traditional risk manager and the financial risk manager began reporting to the same individual in a corporation, commonly the treasurer or chief financial officer. It quickly became apparent that a common approach to risk management would be preferable to an individual approach and an integrated approach preferable to a separatist approach. The evident success of first hazard risk management and later financial risk management has encouraged managers to try to include these and other forms of risk in an overall risk management strategy.

The success of this approach depends on the ability of those involved in the separate risk categories to develop an integrated approach and extend it to other areas of risk. This is not truly a new form of risk management; it is simply recognition that risk management means total risk management, not some subset of risks. The new focus on the concept of risk management provides an opportunity for risk managers to apply their well-established and successful approaches to risk on a broader and more vital scale than previously.

2.6 Challenges to implementing Integrated Risk Management

Although risk management represents a return to the roots of risk management, in order to be involved with enterprise risk management, traditional risk managers will need to obtain some additional skills. The starting point is to learn the terminology of finance and financial risk management.

The primary challenge to traditional risk managers is to examine all risks that an organisation faces, and not just focus on those that are insurable. Since enterprise risk management involves so many different aspects of an organisation's operations, and integrates a wide variety of different types of risks, no one person is likely to have the expertise necessary to handle this entire role.

In most cases, a team approach is used, with the team drawing on the skills and expertise of a number of different areas, including traditional risk management, financial risk management, management information systems, auditing, planning and line operations.

The use of a team approach, though, does not allow traditional risk managers to remain focused only on hazard risk. In order for the team to be effective, each area will have to understand the risks, the language and the approach of the other areas.

Also, the team leader will need to have a basic understanding of all the steps involved in the entire process and the methodology used by each area. The lack of data and the difficulty in predicting the likelihood of a loss or the financial impact if a loss were to occur make it hard to quantify many risks. One feature of enterprise risk management is the consideration of offsetting risks within an Integrated Risk Management.

2.7   Implementing Integrated Risk Management

Kawamoto (2001) suggests a common thread of enterprise risk management. According to him overall risks of the organisation's risk should be managed in aggregate, rather than independently. Risk is also viewed as a potential profit opportunity, rather than as something simply to be minimised or eliminated. The level of decision making under enterprise risk management is also shifted, from the insurance risk manager, who would generally seek to control risk, to the chief executive officer, or board of directors, who would be willing to embrace profitable risk opportunities.

Barton, Shenkir and Walker (2002) argue that twenty-first century businesses worldwide operate in an environment where forces such as globalisation, technology, the Internet, deregulation, restructurings and changing consumer expectations are creating much uncertainty and prodigious risks.

No force is having as great an impact on business today as the internet. As the internet evolves, companies in all industries are rethinking the basics business models, core strategies and target customer bases in terms of the risks they carry. These new developments create new issues related to risk and risk management.

Barton, Shenkir and Walker (2002) suggest that managing risk on an integrated and enterprise-wide basis is a vital issue confronting executives, with the Chief Financial Officer a key decision-maker in crafting the company's strategy. To some extent, no matter what its products or services, every organisation is in the business of risk management.

One key finding from the study conducted by Shenkir, Barton and Walker (2000) for the Financial Executives Research Foundation (Making Enterprise Risk Management Pay Off) on the implementing Integrated Risk Management is that risk management is not just about finance, insurance or disasters. It is about running the business effectively and understanding, at the core, the fundamental risks facing the business. Successful companies, almost by definition, have managed risks well, but practicing "risk management" has typically been informal and implicit. Some companies may have survived without ever knowing their real portfolios of risks. Taking an implicit approach to risk management can be risky itself, as it's caused some major surprises to companies unaware of the explicit risks.

Various studies on Integrated Risk Management have been conducted for the Canadian federal government. These studies provide guidance models departments can adopt in implementing Integrated Risk Management. The application of the framework is expected to enable employees and organisations to better understand the nature of risk and to manage it more systematically.

Table 2.1 below identifies the key elements for an Integrated Risk Management framework.

TABLE 2.1 INTEGRATED RISK MANAGEMENT FRAMEWORKS

Guidelines Accountabilities	**Principles** **Roles**	Governing principles and policies for managing risks including values and ethics, communication, etc. Definition of roles and responsibilities across business lines, program functions, corporate services, to enable Integrated Risk Management.
Process	Identify Risks → Assess and Prioritise Risks → Respond to Risks → Monitor and Evaluate	Adoption of a simple and flexible process for Integrated Risk Management, consistent with best practices, and the Integrated Risk Management Framework
Infrastructure	Common Language | Information Elements | Reports | Technology Organisational Culture	Definition of common language and key information elements to capture for decision-making and reporting, using a common technology solution.

Source: Treasury Board of Canadian Secretariat (2001)

The framework categorises risk into four elements

(a) Developing the corporate risk profile by identifying the organisation's risk through environmental scanning; assessing the current status of risk management and identifying organisation's risk profile. The corporate risk profile provides fundamental guidance for establishing an Integrated Risk Management function. A key component of the profile is the assessment of the readiness of the organisation's governance, decision-making and accountability structures, and mechanisms.

The profile allows senior management to make strategic plans for expanding capacity in terms of human resources, tools, and processes at both the corporate and the local level.

(b)   Establishing an Integrated Risk Management function by ensuring that management direction on risk management is communicated, understood and applied; approach to operationalise Integrated Risk Management is implemented through existing decision-making and reporting structures and capacity is built through development of learning plans and tools.

(c)   Practicing Integrated Risk Management by ensuring a common risk management process is consistently applied at all levels; results of risk management practices at al levels are integrated into informed decision-making and priority settings; tools and methods are applied and consultation and communication with stakeholders is ongoing. A critical aspect of successful implementation is weaving Integrated Risk Management seamlessly into existing departmental processes. Annual corporate planning, performance reporting, and training development and delivery must all be risk-attuned. Aligning risk management vision and objectives with corporate objectives and strategic direction helps make risk management meaningful and relevant to all employees.

As implementation progresses, individuals should come to understand managing   risk as part of their daily work, not something superimposed on their usual activities. Acceptance of the concepts of Integrated Risk Management will be commensurate with the extent that the organisation has been successful in establishing and using common risk terminology incorporate tools and documentation.

(d)   Ensuring continuous risk management learning by establishing a supportive work environment where learning from experience is valued, lessons are shared; building learning plans into organisation's risk management practices; evaluating results of risk management are to support innovation, learning and continuous improvement and ensuring experience and best practices are shared, internally and across government.

While a number of departments are being supported by their internal audit unit in the implementation of Integrated Risk Management, the responsibility and accountability for implementation nonetheless remains with management. This recognizes the need for departmental internal auditors to maintain objectivity and provide independent advice and assurance on the effectiveness of Integrated Risk

Management within their organisation. It is not uncommon for the focal point to migrate subsequently to areas such as strategic planning, as the function matures and Integrated Risk Management becomes ingrained in corporate planning and priority-setting processes. Regardless of location, it will be important to build linkages between the focal point and existing centers of functional expertise throughout the organisation.

This comprehensive approach to managing risk is intended to establish the relationship between the organisation and its operating environment, revealing the interdependencies of individual activities and the horizontal linkages. This research adapts this model in evaluating the approaches tools and techniques used by the Eastern Cape Provincial Government Departments in implementing Integrated Risk Management.

2.8 Summary

Different approaches to risk management suggest a shift from the traditional solo approach to Integrated Risk Management. Integrating risk management into other business processes requires the support of everyone in each organisation. There is a well-known need for sound control to minimise financial risks, impropriety and malpractice, to safeguard public assets and to manage health, safety and environmental risks. In the private sector, the importance of risk management is often understood. Risk management systems in government tend to be policy-domain-specific. Most are directed towards policy, that is, focus on achievements of public policy objectives rather than business risks and some are focused on risks to third parties than risks to producer organisations.

In principle, a case could be made for a more generic approach that involves the integration of business risk management techniques into management control and organisational strategy in the public sector. Many of the environmental and technological changes are causing risk management to assume greater importance in today, business strategy. This affects the way in which business is conducted both in the private sector and government sector.

An integrated business risk management approach offers the possibility for striking a judicious and systematically argued balance between risk and opportunity in the form of contradictory pressures for greater entrepreneurialism on one hand and limitation of downside risks on the other that are experienced by contemporary sector managers.

CHAPTER 3   RESEARCH METHODOLOGY

3.1   Introduction

The purpose of this chapter is to provide a clear and detailed description of method followed by the research. This chapter will explain the research design, the unit of analysis (participants) of the study, the instruments used for data collection and the procedures followed.

In designing the research project, careful attention was given to four important issues: what information was required; where was this information to be found; how would it be collected and how would the information be dealt with so as to provide unambiguous and relevant conclusions.

The study is exploratory by design. Exploratory research is well suited to understanding the concept and theories held by the people who are being studied (Bickman and Rog: 1998). It is hoped that the exploratory nature of this study will contribute to the understanding of Integrated Risk Management approaches and how it should be implemented in the government sector. Exploratory research of this kind is oriented at the enlightment of salient issues, the focus of research variables and the generation of hypothesis. These studies are less concerned with reducing bias and margins of error. It is more concern with the generalization from the sample to the population. The decision to describe this study as exploratory is further motivated by the absence of previous academic research conducted on how government sector implements Integrated Risk Management.

3.2   Research Design

Walman and Kruger (1999) define the research design as the plan according to which we obtain research participants and collect information from them. In it we describe what we are going to do with participants with a view to reaching conclusions about the research problem.

In order to gather information that respond to the research objective, a qualitative and quantitative approach was used.

Rudestam and Newton (2001) indicate that using a combination of qualitative and quantitative methodologies can be very effective. Creswell (1998) suggest four approaches to mixed methods design. These include

a)   Sequential studies – the study involves firstly gathering quantitative or qualitative data in two distinct phases.

b)   Parallel / simultaneous studies – quantitative and qualitative studies phases occur simultaneously.

c)   Equivalent status designs – quantitative and qualitative approaches are used with differing emphasis.

d)   Dominant/less dominant studies – either the quantitative or qualitative approach is dominant and the second approach is a supplementary component.

The fourth approach which the study adopts is the dominant / less dominant study. In order to achieve the appropriate results, the qualitative approach was more dominant and the quantitative research was supplementary component of the study.

The primary method used to gather data was a survey method. This method was developed in the form of a structured interview questionnaire. The questionnaire consisted of close-ended questions designed in accordance with the research objective with the intention of extracting the most relevant information.

The close ended questions used in this study offer the participant a selection of possible alternative responses allowing the researcher to gather quantitative data. The questionnaire provided a space for comments and to allow participants to describe their responses to questions by expressing their own views openly. This allows the researcher to gather qualitative data (Oppenheim: 1992).

The literature study was conducted in between January 2004 and April of 2004. The questionnaire was administered between May 2004 and July 2004 and the results were assessed in December 2004. The participants were drawn from government departments in the Eastern Cape provincial government. The list of participating departments is attached in ANNEX A.

3.3   The Research Participants

The concept of Integrated Risk Management is new in the government sector especially in South Africa. Records indicate that no studies on Integrated Risk Management have been conducted prior to this one in the Eastern Cape. This evidence was gathered from senior official in the departments who have been employed by the departments since 1994.This suggests the study to be the first of its kind in the Eastern Cape provincial government. The population does not have any prior sample frame. It should be re-emphasised that this is a fundamentally platform for further research.

3.4   The Sample

Sampling is the deliberate selection of a number of individuals who will provide the researcher with the necessary data from which conclusions can be drawn (Jankowicz: 2000). As indicated, the sample frame has unknown characteristics and it is difficult to establish the degree to which the sample will represent the population as the whole.

The researcher used non-probability sampling which involves the researcher using inferences, judgment and interpretation in drawing up a sample frame. The selected sample frame represents the population which met the general parameters of the study objectives.

The research area included only government departments with respondents carefully selected from lists of all employees that participated in the strategic planning sessions during the year ending March 2004. As subjects were selected because of certain characteristics they have, a judgment sampling was used. The sample included senior and middle managers. The aim was to measure the divisional understanding of perceptions of the adequacy of risk information provided along with personal perceptions regarding what could be improved with respect to Integrated Risk Management within the Eastern Cape Provincial Departments.

This would allow for information sharing with each middle manager regarding current Integrated Risk Management practices, and stimulation of discussion on the nature and importance of Integrated Risk Management in departments and actions that could move Integrated Risk Management forward. Participated departments are listed in ANNEX A.

Departments were categorised into two main categories. Departments with an annual budget of more than 5 billion fell under category 'A' as large departments. The "A" category departments are the main service delivery departments. In relation to their size, number of employees, the number of activities, transactions per each day, the number of outside organisations and agencies that deal with them on a day to day basis these departments are expected to be more exposed to risk than others.

Three departments that met this criterion were Education, Social Development and Health (Budget Statement: 2004/2005). The other ten departments fell under category B, as small departments. Approximately, a total of one hundred and eighty (180) participants were enough to enable the study of the entire population of approximately 4000 senior and middle managers in the province. A total of ninety eight (98) questionnaires were completed.

3.5   Instrument Used To Collect Data

The questionnaire was used for data collection from the participants. This method is often used to gather data on the population's views, values and beliefs. The objective is to assist the researcher to draw generalised conclusions (Jankowicz 2000). A structured questionnaire was administered in the form of self administered questionnaire. The questionnaire consisted of close ended that facilitated the gathering of statistical results and opinions from the sample frame. The questionnaire was physically distributed to each participant during the interview time. Each interview lasted about 45 minutes. Interviews were conducted between May 2004 and July 2004. The researcher had an advantage of being engaged by the Eastern Cape Provincial government on a number of projects at the time of the study. Departments are within a walking distance to each other. The sample was drawn from Head Office departments in Bhisho. This was motivated by the fact that all major decisions that affect the running of the departments are taken at a head office level. The use of this distribution method added many benefits with regard to cost saving, quick administration and flexibility (Ranchhod and Zhou: 2001).

The questionnaire was designed to extract as much information as possible, and in accordance with the research objectives. The questionnaire was developed based on best practices and organized around the four elements of Integrated Risk Management outlined in the integrated management framework guideline document. A copy of the questionnaire is presented in ANNEX B.

The questionnaire includes 24 best practice statements that relate to the elements of Integrated Risk Management. Part 1 focused on identifying important risks and priorities. Part 2 focused on establishing the roles and responsibilities for risk management in each department. Part 3 looked mainly on how departments apply an Integrated Risk Management approach. Part 4 focused on the techniques used by departments in enabling risk management and what they have learnt from experiences in managing risk.

The wording of each question favoured the researchers understanding rather than the respondent as it was agreed that the respondent would have the benefit of the presence of the interviewer who would explain the question when necessary.

The Canadian Framework on Integrated Risk Management was used as the base for designing the questionnaire. The questionnaire was designed had to be designed with a purpose of extracting the most information from the respondent. The main aim of the study was to provide guidance to advance the use of corporate and systematic approach to risk management. For each statement, participants used voting technology to provide an assessment against each best practices statement as starting point to discussion. For the quantitative sections of the questionnaire, participants would insert an 'X' on the desired option and the response would be recorded. A choice of 1 indicates that the practice does not take place. A choice of 2 indicates that the practice is sometimes taking place but at a very limited scale. A choice of 3 also indicates that a practice is sometimes taking place but not very often. A choice of 4 indicates that a practice is sometimes taking place but not completely. A choice of 5 confirms that the practice is always taking place. The questionnaire had an allocated text portion in which participants could provide their opinions. This would form that qualitative section of the questionnaire. Participants would simply write comments on the area which would allow them to type in their desired response.

No concern was expressed at the possibility of the respondents selecting "I don't know" or "Does not apply" option when they were not sure of their response as it was anticipated that respondents would more likely be familiar with risk management concepts.

Twenty six pilot questionnaires were distributed to thirteen departments. The pilot participants were employees of the various departments who were involved in the administration of financial resources. The pilot questionnaire had many functions; namely, to test the questions for content and

understanding, to assess how long it would take to complete the questionnaire and, finally, to ensure that the instructions were clear and easy to follow. Pilot samples in academic studies are widely used and recommended as they assist in identifying any problems in the questionnaire. In addition, it assists the researcher to perfect the questions prior to distribution (White 2000, Riley *et al*, 2000).

The pilot participants responded to the questionnaire as follows: the questions were found to be simple and understandable, the test took the pilot sample approximately 45 minutes to complete and the instructions were clear and easy to follow.

3.6   Data Collection and Analysis

In any qualitative study, the primary data collection instrument is the researcher, yet it is also important to use multiple methods of data collection (triangulation) to increase the trustworthiness of the data. For this reason, the researcher used several methods of data collection including structured questionnaires, in depth interviews and note-keeping and reviewing risk assessments reports carried on behalf of the departments.

The questionnaires were distributed to the 180 respondents prior to the interview appointment date. 98 respondents completed the questionnaire and were also interviewed. As the researcher distributed the questionnaires in person and carried the interviews, it was possible to scrutinize the information and reduce errors instantly. Statistical cleaning was done whilst completing the questionnaires with the respondents. Figure 3.1 shows the number of participants per department.

FIGURE 3.1 RESEARCH PARTICIPANTS
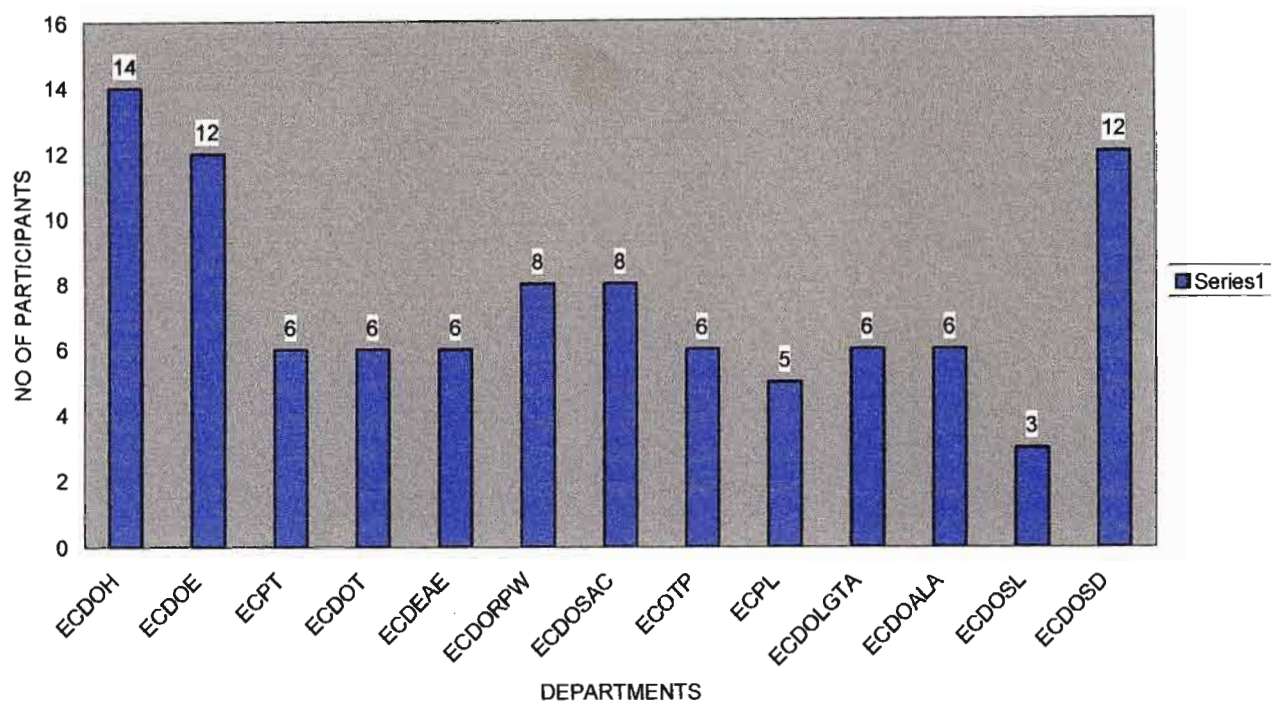
Figure 3.2 shows the percentage contribution to the study for each department.

Figure 3.2 Percentage Contribution per Department

ECDOH ECDOE ECPT ECDOT ECDEAE ECDORPW ECDOSAC ECOTP ECPL ECDOLGTA ECDOALA ECDOSL ECDOSD
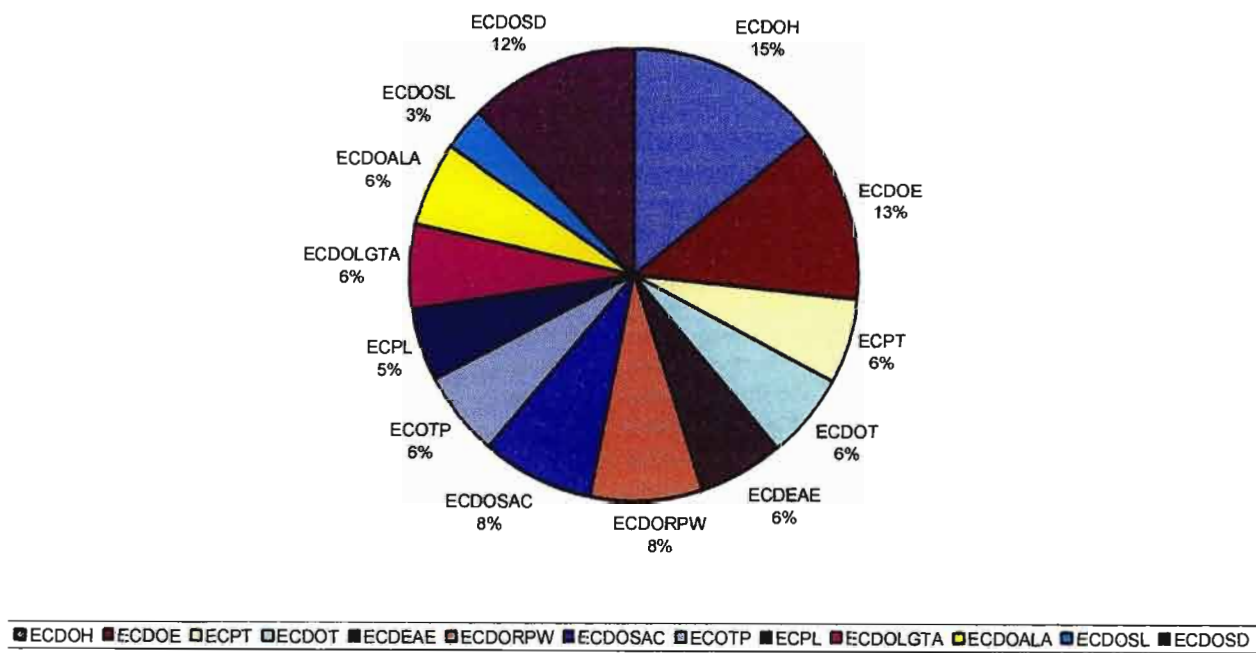
Information collected from the questionnaire was coded and responses categorised in line with the 24 questions. The classification of data and responses from participants are presented in ANNEX C. Information from questionnaires was coded and categorised to allow the researcher to analyse responses from each department. The coded data was then assessed using the statistical analysis program SPSS version 14 for Windows which then presented statistical results in terms of frequencies. The use of frequencies indicates the number of times that participants responded to the question. These results can be expressed as a number or a percentage. The results are presented in chapter 4.

In depth interviewing, which is a second method used predominantly in this research consists of repeated face to face encounters between the researcher and informants directed toward understanding participants' perspective of their experiences, or situations as expressed in their own words.

All interviews were transcribed. Transcriptions of interviews were analysed using the constant comparative method (Glaser: 1993). Data analysis was iterative with data collection. Data were analysed as they were collected through the process of coding. Through open coding, common themes of risk management were identified and examined in relation to the context, meaning and understanding of Integrated Risk Management. Comments made by participants were recorded to provide information on the context, examples, barriers and improvement opportunities for practicing Integrated Risk Management within each department.

Interviews were further coded by conceptualizing underlying patterns in the data. Initial data analysis guided further and more focused data collection, leading to further conceptualization of the data and refinement of the coding schemes. As part of the analysis, similarities and differences about compiled codes were clustered together to create categories. Conceptual saturation was reached when no new categories were generated.

Information collected enabled the identification of common themes across the departments and the baseline assessment of Integrated Risk Management within departments. The common themes regarding Integrated Risk Management within departments were developed using information from

interviews with middle and senior managers. Each part introduces context to facilitate a better understanding of the theme. Theme conclusions are then presented in ANNEX D and a description is provided to illustrate the theme across all departments and within specific divisions. Themes provide a summary assessment of departments as a whole. As such, certain areas within divisions may differ with respect to maturity of risk management practices in palace.

The evolution of risk management within departments was viewed through the Risk Management Maturity Continuum. The Continuum is presented in Table 3.1 below. The model is adapted for the Eastern Cape Provincial Government Department. The maturity continuum identifies five stages of risk management maturity. A description is provided for each stage along with the main capabilities and characteristics associated with each outcome from various levels of risk management capabilities are also provided. The continuum highlights a number of key Integrated Risk Management elements.

The maturity continuum has been used to situate current departmental risk management practices along the continuum and to help identify opportunities to move all departments forward to a more integrated, proactive risk management approach.

It is important to note that few private or public-sector organisations have yet reached the optimising level of risk management, and that every organisation needs to determine how far and how fast movement along the continuum should occur.

TABLE 3.1 Risk Management Maturity Continuum

Organisational culture to systematically build and improve risk management capabilities

	Risk Management		Integrated Risk Management		
Stage	Initial	Repeatable	Defined	Managed	Optimising
Description	Focus on risk with ad hoc risk management activities based on individuals, not the organisation	Risk management processes are established for certain key areas; processes are reliable for risk management activities to be repeated over time	Risk management policies, processes and standards are defined and formalised across the department	Risk are measured and managed proactively. Risks are aggregated on an organisation-wide-basis	The departments are focused on the continuous improvement of risk management
Capabilities& Characteristic	The concept of risk management is not well understood.

Risk management is ad hoc and few processes are defined.

Risk management is driven from individual preference and initiative.

Risks are identified and managed only as required, in reactive mode.

Risk management is dependent on the competencies of individuals

Practices used for risk management are not necessarily repeatable | Risk management policies or guidelines are in place in key priority areas.

Roles and responsibilities for managing risks are understood with specific areas

Individuals are accountable for managing risk with authority to act

Resources are specifically allocated to risk management efforts in specific areas

The environment is scanned within key areas and important risks are assessed using various methods

Risk management practices are consistently applied within key areas There is no risk management policy, guidelines or framework at the department-wide level | A common definition of risk is used and there is a defined organisation-wide risk management framework or process used by all groups

Senior management is familiar with risk concepts and the organisation-wide framework or process.

Roles and responsibilities for managing risks are defined

The environment is scanned on an organisation –wide basis to identify risks in relation to objectives

Important risks are identified and assessed using consistent approach. Plans are developed to manage risks

Technology is used to store risk information and facilitate reporting | Standardised tools and techniques are used for managing risks

Training is provided to managers and staff on risk management, and tools and techniques

Risk management is integrated across the department

Processes are in place to monitor and report risks on a regular basis

Risk tolerance or limits are established and communicated

Risk exposures can be anticipated from experience, lessons learned or forecasting techniques

When risk tolerance or limits are exceeded, actions are taken to correct the situation

Risk information is shared across the department and with stakeholders on an ad hoc basis | Risk management is fully integrated across the department and levels of effort are optimised in key areas

Risk management priorities are in line with departmental objectives

Practices for managing risks are monitored for effectiveness and organised efforts are made to improve risk management practices

There is a clear linkage between performance measures and risk management

Best practices are identified and shared across the department

Significant risks and implications are communicated across the department and to stakeholders on an ongoing basis

There is formal recognition for effective risk management |
| Outcomes | There is limited awareness of risks. Risk management is taking place but it is driven from issues and managed on intuition and individual preferences | Risks are actively managed in traditional areas where professional standards exist, and in areas of high risk to health and safety. There is a limited awareness of risk as an opportunity | Risks are identified proactively, from a common perspective. Risk information is reported and considered as part of other management processes such as planning. | Risks are actively monitored and decisions and made to reduce risk exposures to an acceptable level. There is a good awareness of risk tolerances across the organisation | The performance of risk management activities is measured. Risk management practices are improved on a continuous basis. Stakeholders are informed of risks and engaged in providing input and feedback |

Source: Deloitte & Touché (2004)

Depending on the nature of the risks that an organisation faces, it may be more useful or cost-effective to have greater sophistication of risk management practices in certain areas than in others. The target maturity level for Integrated Risk Management is a strategic decision that should be made based on current risk management activities and the nature of the risks an organisation faces.

3.7 Trustworthiness of the research

In qualitative research the requirements of validity and reliability are under enthusiastic discussion. There are interpretations that these traditional measures of reliability are not applicable at all in qualitative research because of the nature of the methods and epistemological assumptions of the research, which promote the uniqueness of the research.

On the other hand, there are also demands for using the same criteria for qualitative and quantitative research when evaluating the trustworthiness of the research. Between these points are many different variations for justifying the results of the research. However, the issue of trustworthiness cannot be avoided whatever the epistemological approach of the research (Gibbs: 2002).

Lincoln and Guba (1985) described the criteria that are frequently cited for evaluating qualitative studies. They address the criticisms leveled at naturalistic research and determine that quality rests in trustworthiness of the study and its findings.

3.7.1 Credibility

Credibility refers to the accuracy or credibility of the findings, or it can be described as a truth formulating process between the researcher and informants (Lincoln and Guba: 1985). The goal is to demonstrate that inquiry was conducted in a way which ensures the subject was accurately described.

Credibility of the data was established through prolonged engagements, persistent observation during interviews and data triangulation. This was followed by presenting the analysis of the data to informants for their confirmation or revision.

With regard to triangulation, Yin (1994), Bratthall and Jorgensen (2002) provide a list of data sources that can be used during data source triangulation such as interviews, analysis of documents and direct observation.

3.7.2 Transferability

An alternative concept to the logical positivist's generalisability construct is Lincoln and Guba's (1985) transferability. The use of the term implies generalisability of the findings and results of the study to other settings, situations, populations, circumstances, etc. According to Maxwell (1996), the idea beyond generalizability on qualitative studies is based on the development of a theory that can be extended to other cases.

Transferability is relative and depends entirely on the degree to which salient conditions overlap or match. One of the procedures that may be available to establish transferability, applicable to all but the most exploratory of qualitative studies, is to see whether a given theory or model that the qualitative researcher claims to be testing or applying has in fact, been accurately interpreted and used in the research (Lincoln and Guba: 1985). This may be interpreted as a check of content accuracy.

In the study the most defensible indicator of transferability was to look for evidence of multi-method procedures in the design and/or analysis. The researcher applied different methods and procedures and then triangulating. The different paths or results were compared to see if they converge upon the same findings and results, serve to enhance the believability and robustness of the results, more so than if a single method were used.

3.7.3 Dependability

This is concerned with the stability of the data over time. Dependability requires accounting for dynamic changes in the phenomenon of study, design, or methodology as appropriate (Lincoln and Guba: 1985). Therefore, there is the need to be able to demonstrate any changes or shifts in the way in which the inquiry was conducted.

In order to assess the degree of dependability Lincoln and Guba (1985) suggests look for accurate and adequate documentation of changes surprise occurrences, and the like, in the phenomena being studied. If change is to be expected, it has to be thoroughly described. Any unexpected but material occurrences

which might affect variables of study were identified and documented with adequate detail. Lincoln and Guba (1985) pointed out that dependability is difficult to predict in a changing social world. In establishing dependability, the researcher attempts to account for changing conditions in the phenomenon chosen for study as well as changes in the design created by increasingly refined understanding of the setting.

3.7.4 Confirmability

This quality, according to Lincoln and Guba (1985), is synonymous with objectivity. Need to show that data, interpretations and outcomes inquires are rooted in contexts and persons apart from the evaluator and are not simply figments of the evaluator's imagination. All data was tracked to its source and that the logic used to assemble the interpretations into structurally coherent and corroborating wholes is both explicit and implicit in the narrative of the study.

3.8 Summary

Although one could expand this chapter by discussing the theory of research methods and approaches, it was decided to restrict this chapter to explaining what the research methodology of this research project was and to motivate why, with the necessary support from authoritative sources. Thus, an explanation of the background to the study was presented. Thereafter, an explanation of the questionnaire was detailed as well as an explanation of the fieldwork carried out. Elements of the sample and sample size and the design of the analysis of the data were explained. Finally, the type of study was explained in order to depict the nature of the research project.

CHAPTER 4   RESULTS OF STUDY

4.1   Introduction

As stated in Chapter 1, this study will examine Integrated Risk Management in detail. This section focuses on the analysis and interpretation of results of data. The chapter is organised into four main parts. The first part focuses on the identification of important risks and priorities. The second part looks at establishing roles and responsibilities for risk management. Part three focuses on how departments are applying an Integrated Risk Management approach. Part 4 focuses on how departments enable risk management and learning from experience.

4.2   Identifying Risks and Priorities

In today's world, organisations are expected to have deliberate and evident management strategies and processes commensurate with the nature, scope, frequency and magnitude of risk to which they may be exposed (The Risk Programme Report: 2003). These strategies and processes would be in line with a suitable Integrated Risk Management framework. The strategies would enable departments to identify potential impacts on the departments, government and/or the community; and have reasonable and practical measures to address these impacts.

Appropriate Integrated Risk Management strategies would identify foreseeable risks; recognise, understand and appreciate the nature and potential level of these risks and mitigate the full scope of risk exposures reasonably and practically

Government departments need to have a framework and method for identifying, analysing and assessing their main risk; assign organisational risk management responsibility clearly; have an organisation-wide strategy and policy; apply risk management to its business and services; and   have some form of risk treatment and contingency plans

The research has found that there is a low level of risk management activity taking place in the Eastern Cape Provincial government departments. Some departments have risk management processes in some part of their business and services.

More than half of the departments have either identified their main risks or profiled their risk exposures.

None of the departments are working, in accord with the commonly accepted elements of formal Integrated Risk Management, to establish a strategic context; identify, assess and treat risks; and monitor, review and communicate risks.

Almost all of the departments have a context and method for analysing risk and but no person, group or unit is responsible for risk management. Almost all departments are still developing a risk management strategy although they have managed to develop fraud and prevention plan.

None of departments have an organisation-wide strategy. None of the departments have a separate, explicit risk management policy aligned with the risk strategy, or are developing one. The majority of them have defined risk management elsewhere.

Departments do not always identify the main risks relating to their goals, objectives and planned outcomes. 91 percent of the respondents believe their departments have identified their main risks or assessed risk to identify and profile their risk exposures. Departments do sometimes apply risk management processes in some areas of their business and services. All departments have some form of risk treatment plan but none have planned for contingency, disaster recovery or business continuity in some way.

Of the departments that are engaged in risk management processes, none of them have appropriate Integrated Risk Management strategies in place. Each department needs to understand the risks that impact on the Province if it is to effectively integrate risk management into its governance and/or management structures. This impact on the Province or on other departments can take on more significance as joined-up-government services and policy outcomes are implemented, and the identification and management of public sector risks between cooperating organisations requires greater attention.

4.2.1 Risk Identification

Generally, the first step in any risk management process is risk identification. It involves the identification of events that could affect achievement of business objectives, whether or not they are under the control of the organisation.

Clearly, an organisation that can identify potential risk well before the event or situation occurs. This affords organisations significant flexibility in mitigating the risk. The nature of risk management within departments is primarily reactive. In certain areas of the departments, such as project management, financial management and environmental health and safety, risks are managed proactively using formal or traditional methods. Across the departments however, proactive risk management is rare.

The study found that participants generally have a common understanding of risk definition across all departments. According to the study, 64 percent of the participants believe to always having a common definition of risks across the department whilst 36 percent believe that in some instances risk does not always mean one and the same thing. Responses for this question are illustrated in Table 4.1 and Figure 4.1 below.

Table 4.1 Common Definition of Risk

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3	1	1.0	1.0	1.0
	4	34	34.7	34.7	35.7
	5	63	64.3	64.3	100.0
	Total	98	100.0	100.0	

Figure 4.1 Common Definition
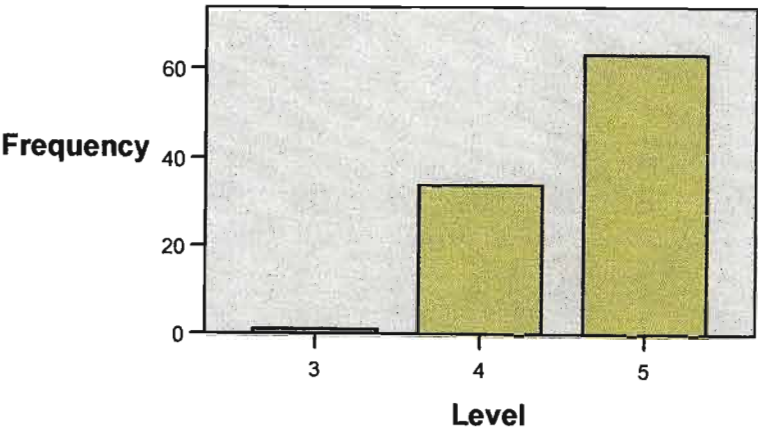
Risk management takes place, but it is primarily instituted once an issue has surfaced. There is a sometimes a degree of risk tolerance across the departments. This means that participants do understand the levels to which risk is acceptable.

The study as reflected in Table 4.2 and Figure 4.2 below shows that ninety three percent of the participants almost have an understanding of acceptable risk level whilst 7 percent thought that risk tolerance is not always understandable.

Table 4.2 Risk Tolerance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	6	6.1	6.1	6.1
	3	1	1.0	1.0	7.1
	4	91	92.9	92.9	100.0
	Total	98	100.0	100.0	

Figure 4.2 Risk Tolerance
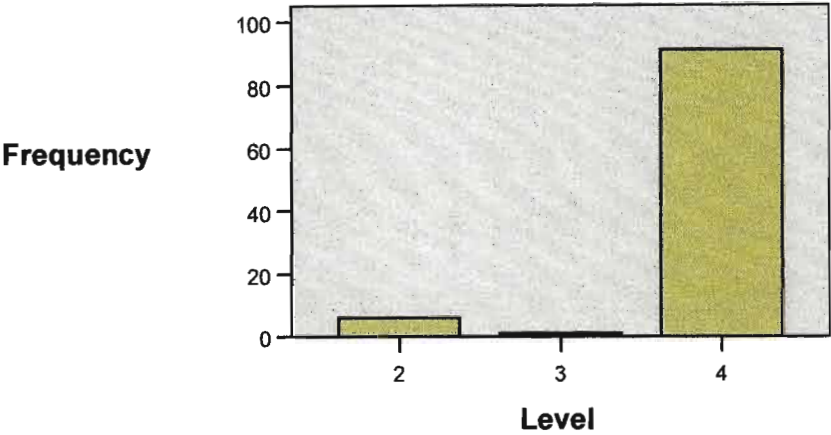
Risk management within some areas is used to identify potential issues and take corrective action to prevent potential hazards.

Environmental scanning is not widely understood or practiced in departments. A constant check of what is happening in the general environment in support of the Risk Committee is one way of making risk identification more proactive. The study found that environmental scanning for risks is inadequate across all departments as illustrated in Figure 4.3 below.

Figure 4.3 Environmental Scanning

Frequency

Level
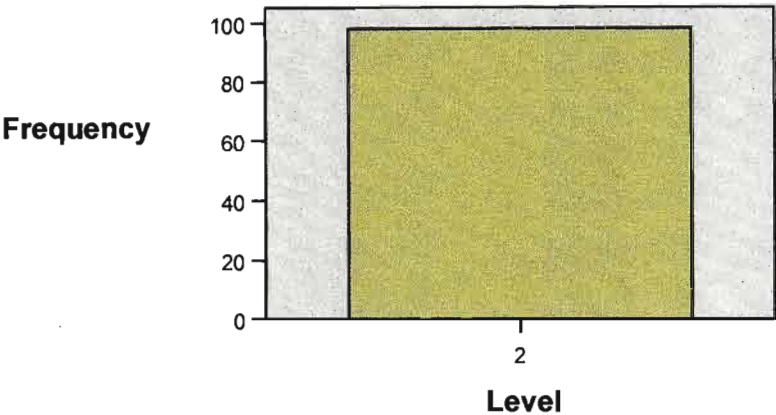
Organisations are expected to involve senior managers and internal stakeholders in risk identification. The study showed that this practice is not taking place across all departments. Figure 4.4 indicates that 99 percent of the respondents believe their departments do not formally convey explicit risk management information to stakeholders. Departments do not communicate their risk management strategy to stakeholders. One percent believes that stakeholders are contacted although they could not elaborate on how this was currently done.

Figure 4.4 Stakeholders

Frequency
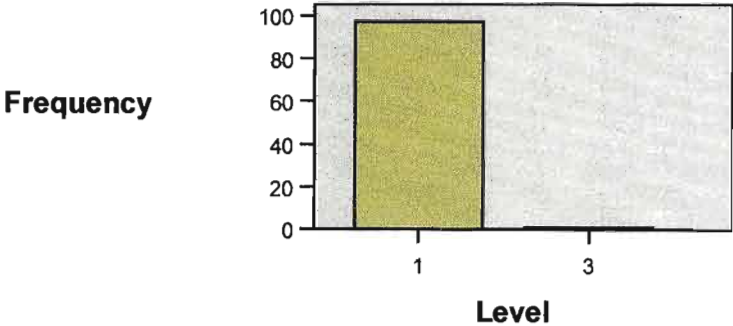
Level

Departments communicate only high-level risks to staff or stakeholders who are directly affected by the risk. While many departments identify and assess their risks, some focus more on completing the documentation rather than on using the opportunity to improve business capability.

4.2.2 Assessment, Monitoring and Prioritisation

One key process element of Integrated Risk Management is the assessment of risks identified with respect to their likelihood of occurrence, and the impact of the risk should it occur. Using a simple map of likelihood and occurrence, risks can be ranked and compared.

Risk assessment is taking place across all departments. Ninety one percent of the participants agree that departments are engaged in formal risk assessment using established criteria. However, such assessments do not take place on regular basis. Participants' responses regarding risk assessment are shown in Table 4.3 and Figure 4.5 below. 91 percent of the respondents agree completely that risk assessment is taking place in the departments as opposed to nine percent who feel that it only sometimes happen.

Most departments identify risks through techniques such as brainstorming, or by engaging internal auditors or external consultants. Assessment techniques vary from focusing on all risks to the department to consideration of specific risk subjects.

Table 4.3 Risk Assessment

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	9	9.2	9.2	9.2
	5	89	90.8	90.8	100.0
	Total	98	100.0	100.0	

Figure 4.5 Risk Assessment
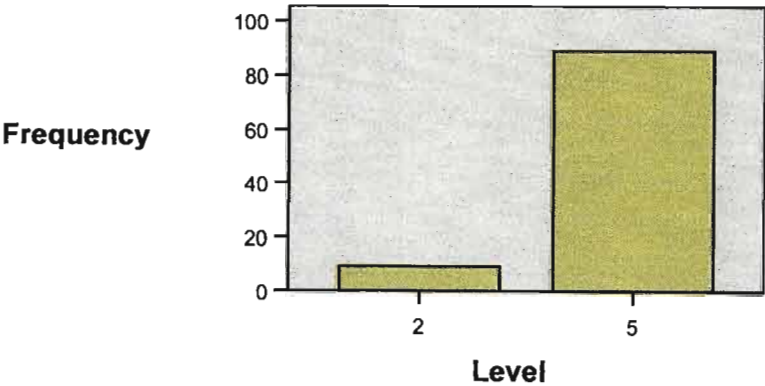
Organisations are developing business risk maps to identify key business risks to the organisation. This helps the organisation understand and address its risks. Management must quantify the magnitude of the risks and measure their potential impact.

The use of a broad scope framework permits the consideration of different types of potential risk in risk mapping. The use of a framework can influence a discussion on the sources and types of risks, for example, external, economic, market, credit, information, human resources and strategic.

This brings a multi-disciplinary perspective for looking at the risks. Examples of this practice include listing the various business risks; developing a risk map on sheet of paper and developing a major matrix of risks which involves capturing of the most damaging threats to the departments. A number of departments have engaged in this exercise through various audit interventions. The work is entirely carried out by the outsourced internal audit division within the department of Health, Education and Social Development in the Province.

Important risk should be monitored on an ongoing basis. Senior management should organise regular forums where risks are reviewed. The study shows that ninety eight percent of participants agree that on average risk monitoring is present in their respective departments although it is not always done in forums and workshops.

Table 4.4 and Figure 4.6 below illustrate participants' responses in relation to risk monitoring. Of the 98 participants, 98 percent feel that there is sometimes risk monitoring and two percent believe that the risk monitoring is almost not taking place at all.

Table 4.4 Risk Monitoring

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	2	2.0	2.0	2.0
	3	96	98.0	98.0	100.0
	Total	98	100.0	100.0	

Figure 4.6 Risk Monitoring
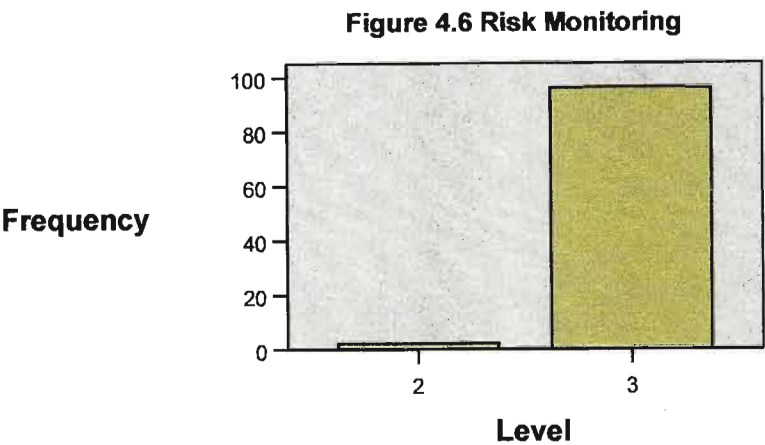
Risk identification improves with practice and is more effective when practiced by a group in a structured way, such as in a brainstorming session. Departmental activities and priorities are often dictated by events that are perceived to be, for the most part, unforeseeable and beyond departmental control. But even these events might be foreseen through structured or facilitated risk identification methods. Risk identification is a critical first step in the risk management process, whether undertaken in a formal risk management framework or inherently, as part of overall business processes

The study showed that 95 percent of participants agree that risk management priorities are not always in line with departmental objectives and priorities. The results are illustrated in Table 4.4 and Figure 4.7 below. Some divisional business plans for each department include high-level analysis of risks. However, there are no consistent processes that are in place to identify and assess risks. Working group members believed business planning risk assessments to be of questionable quality. The divisional business plans generally do not include clear linkages or alignments among objectives, priorities and risks; nor are there clear linkages with departmental objectives and priorities. As a result, some confusion exists about whether priorities and risk management efforts are directed in areas that are most critical to organisational and departmental success.

Table 4.5 Management Priorities

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	4	4.1	4.1	4.1
	2	93	94.9	94.9	99.0
	3	1	1.0	1.0	100.0
	Total	98	100.0	100.0	

Figure 4.7 Management Priorities
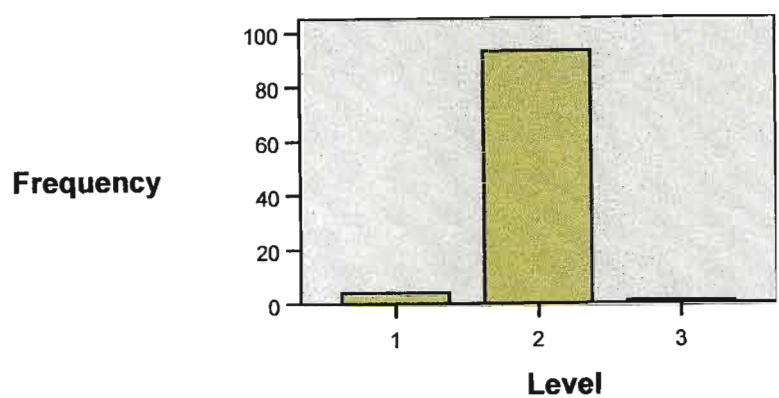
The quality and consistency of risk analysis may also be a challenge within other areas, such as project management. Workshop participants voiced the opinion that risks affecting projects are sometimes assessed purposely at low levels to better ensure that a project is favourably received and approved. In general, the approach to assessing risks appears to be mostly intuitive, lacking structured analysis. Limited prioritization of risks is evident, and the linkage of decisions with planned objectives is not always clear at the strategic level.

Risk analysis in the public sector has a sound foundation and many of the existing risk assessment processes and documentation are aligned with the expectations of the framework on Integrated Risk Management. However, better evaluation techniques and more robust and reliable risk analysis would enhance better decision-making, support issue resolution and improve risk mitigation.

4.3   Roles and Responsibilities

Within each department, individuals perceive risk management as not inherent to their jobs. To the extent that risk management is not considered everyone's business, this is a weakness. Job responsibilities are not specific with respect to risk management responsibilities and accountabilities. As a result, responsibilities for managing risks are not formalized and are poorly understood. Because risk management responsibilities are not formalised, it is less likely that risk management will consistently move beyond the capabilities of each individual to the point where risks are addressed on an integrated basis across the departments.

Roles and responsibilities for managing vertical and horizontal risks are not clearly defined. Assignment of risk ownership or identification of the person who determines what actions should be taken to manage risks and has authority to implement those actions, is not always clear in support or corporate functions. Identifying who is responsible for dealing with risk issues as part of the chain of command is relatively simple. Identifying who should be responsible for risk management of horizontal issues across the divisions, however, is not nearly as obvious.

Risk management strategies are almost non existent across the departments. As reflected in Table 4.6 and Figure 4.8 below, almost ninety five percent of participants agree that there is almost no clear direction as to how risks are to be managed within their departments. Three percent believe that there are risk management strategies in place. There are no objectives and policies that are in place.

Table 4.6 RM Strategies

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	93	94.9	94.9	94.9
	3	1	1.0	1.0	95.9
	4	1	1.0	1.0	96.9
	5	3	3.1	3.1	100.0
	Total	98	100.0	100.0	

Figure 4.8 Risk Management Strategies
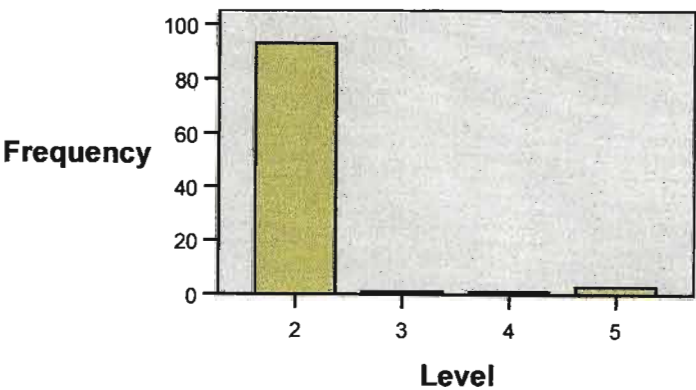
Nonetheless, when risks occur, they need immediate attention, a person who has authority to address the risks can normally be identified, and effective corrective action is usually taken on a timely basis. The

participants in the study agree that individuals with accountability for managing risk do not always have authority to deal with risks. Table 4.7 and Figure 4.9 below show that ninety four percent of the respondents strongly agree with the statement. Six percent of the participants were of the opinion that risk owners are managers with little authority. This was mostly attributed to the bureaucracy in the management structures of the departments.

Table 4.7 Authority

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	6	6.1	6.1	6.1
	3	92	93.9	93.9	100.0
	Total	98	100.0	100.0	

Figure 4.9 Authority
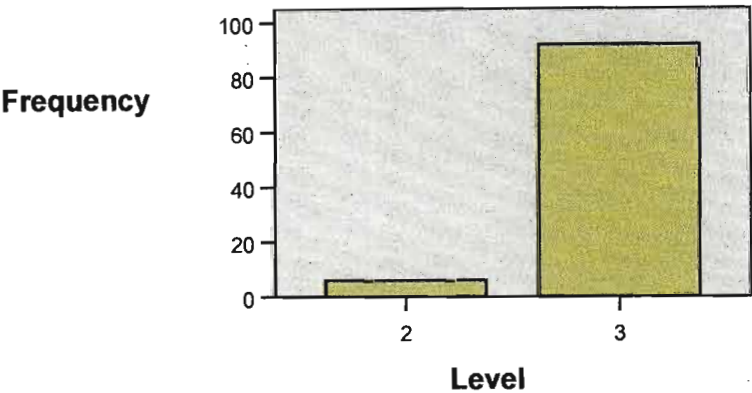
There is no designated support specifically for risk management within each division. In general, openness to having designated officials for risk management is evident provided that such infrastructure would add value and would not require significant resources.

Proper accountability for risk management requires that risk tolerances be established and shared. Each person responsible for risk should be able to determine between the risk that can be assumed and acted upon, and the risk that should be passed up the chain for resolution. Personnel in the operational community tend to report significantly greater comfort than personnel in the corporate community with respect to the level of risk that they are empowered and expected to deal with. Operators routinely

identify their limits of responsibility as being included in job terms of reference, specific orders or briefings.

Secondly, senior management and governing bodies champion risk management and define and communicate acceptable levels of risk. The responsibility for driving risk management is placed high in the organisation. This is also a tool for embedding risk management in the culture.

The support of senior management (and/or the governing bodies such as the Board of Directors) is essential in managing risk. As a start, senior management and the Board must be aware of and understand risk management. There is a wide variety of ways in which the senior leaders are involved in risk management.

However, underlying these ways is the role of senior management and the board to send the message internally and externally about the importance of managing risk. Also, it is important that other managers, stakeholders, and employees see their involvement.

Managing risk must not just be a discussion item for management committees behind closed doors. Some organisations report that they set specific responsibilities in risk management for the Board and senior management. The Accounting Officer may provide guidance such as identifying the principal risks to the business, ensuring that appropriate systems are implemented to manage the risks, ensuring the integrity of the control and management systems, and defining responsibilities and monitoring major risks. Management is accountable for coordinating the risk management and identifying, evaluating, controlling and reporting risks. Most importantly, the Accounting Officer and or senior management, defines, develops and approves a Risk Policy.

The key message of the Risk Policy is the level of risk that the operation is willing to accept. The policy might also state roles and responsibilities and practices for managing risk. Managers require clear direction on risk tolerance. That direction must come from the governing body or senior management. Workshops are another way to communicate the tolerances.

Roles and responsibilities are sometimes understood. It is however, not clear what role everyone should play in managing risk as reflected in Table 4.8 and Figure 4.10 below. 93 percent of the respondents do not feel that risk every one understands their roles and responsibilities.

Table 4.8 Roles & Responsibilities

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	3	3.1	3.1	3.1
	2	4	4.1	4.1	7.1
	3	91	92.9	92.9	100.0
	Total	98	100.0	100.0	

Figure 4.10 Roles & Responsibilities

Roles & Responsibilities
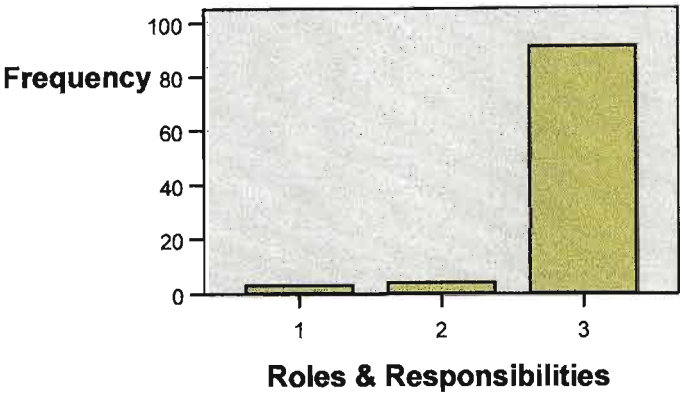
4.3.1 Teams and Committees

Informal and formal teams are a mechanism that many organisations report they are using to manage risks. Teams have been cited in a number of situations such as the management of financial risk, construction projects, health and safety, contract management, transport, and treasury management. Teaming brings to light the dynamics between disciplines, brings together various risk attitudes, and brings fresh thinking to issues, opportunities, strategies and solutions. It is perceived as a way to focus diverse disciplines on common objectives, one of which is minimizing risk. Teams provide balance. Also, teams pollinate a concern for risk management throughout the organisation, rather than being the concern of a function or discipline. While the practice of teaming is recognized as a best practice, there was no common practice concerning the composition of the team. Teams provide a wider perspective and look at various angles of risks and consequences.

Figure 4.11 below indicates that none of the departments uses this tool.

Figure 4.11 Risk Management Committee
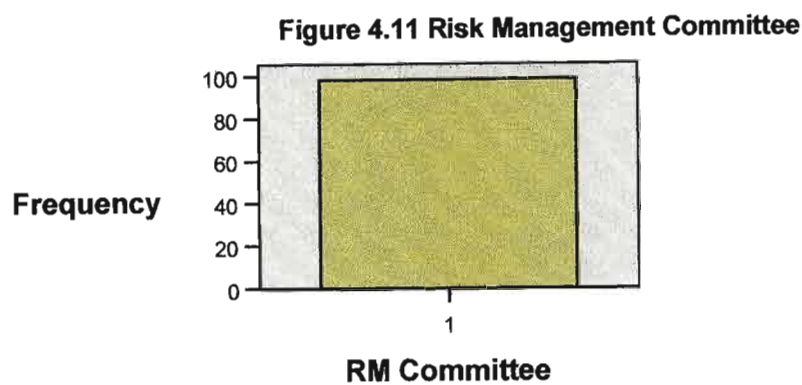
4.3.2 Setting Corporate Risk Management

Many organisations have set up a responsibility centre for risk management. Some units are headed by a Chief Risk Officer (CRO) who defines consistent approaches to managing risk.

As the organisational risk champion, the CRO is responsible for providing leadership and establishing and maintaining risk awareness across the organisation. The CRO might also set up risk control objectives, a risk framework, and design ways to measure risk.

These senior risk managers must have strong persuasion skills. The risk manager must deal with business risks, not just insurable risks. In this way, their importance within the organisation increases. This function is carried out by the internal audit attached to each department across the Eastern Cape Government.

4.4 Applying an Integrated Risk Management Approach

To effectively integrate risk management into governance and management structures, and operating strategically, an organisation needs to apply risk management as a clear part of its strategic and business planning considerations, and at all critical levels of the organisation; explicitly incorporate indicators of risk and risk management into its governance and management structures; ensure its senior executive management are properly informed of the organisation's risk exposures; confirms that suitable risk management strategies are in place and working effectively; are fully and directly involved in setting and reviewing the organisation's risk management strategies. The senior executive management in each department should develop methods to set out the objectives and processes to manage its risks and the desired outcomes; and allocate suitable and sufficient resources risk management, taking into account the

nature and level of the identified risks and the size of the organisation.

The study has found that almost all departments do not approach risk management formally, from a perspective defined by, and linked to, government policy, organisational goals and stakeholder expectations. None of the departments incorporate risk management into business and strategic planning processes. Departments have informal risk review process but none of departments incorporate risk management into their budgeting processes, and almost all of these have a specific budget item for self-retained losses and risk exposures. Departments are mainly limited in their risk management by failing to implement a review process; or failing to approach risk management from a perspective defined by, and linked to, government policy, organisational goals and stakeholder expectations.

Success in managing risk is more likely where direct leadership and strategic management were provided by the Accounting Officer, Chief Financial Officer and audit committees; and the department has an appreciation of public sector risks.

4.4.1 Process

While an organisation's risk management practices need not be identical across departments, a significant level of commonality in the risk environment of an organisation is required for a genuine Integrated Risk Management framework. Risk-management practices across departments differ significantly from location to location. No commonly accepted risk process is evident in the departments. Table 4.9 and Figure 4.12 shows that 92 percent of the respondents do not believe that there are any risk management processes. There are no clear processes of identifying, acting upon and monitoring risks. Areas where capital and information technology projects are managed tend to define risk in terms of how it might affect various criteria such as quality, budget and timelines.

Table 4.9 RM Processes

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	90	91.8	91.8	91.8
	2	5	5.1	5.1	96.9
	3	3	3.1	3.1	100.0
	Total	98	100.0	100.0	

Figure 4.12 Risk Management Processes
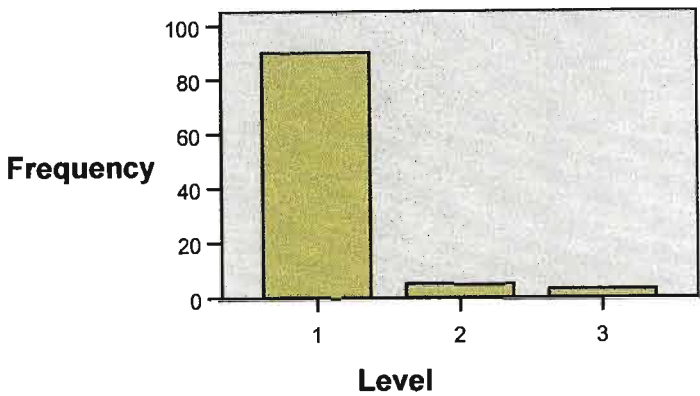
None of the departments have a documented Integrated Risk Management strategy as a specific part of their departments' risk management. Almost all departments are said to be developing one. Departments are developing, a formal risk policies. Participants believed department executive management are supporting the initiative to develop risk management policies. Once the policies are finalised, they will be explained to all staff and implemented throughout the departments. Specific project management criteria or dashboards are used to monitor the status of projects and report issues to management. To the extent that they exist, departmental risk management processes differ substantially.

National Treasury has drafted a risk management framework for all operations in the departments; however, the framework has not been fully implemented.

Participants have indicated that a level of Integrated Risk Management does not exist within their departmental operations within Finance and Corporate Services. The senior financial managers for several departments review and advise on projects from a financial risk perspective. As could be expected in an organisation less focused on innovation, risk management within the research and development community is not well established. Participants within the departments indicated that information to identify and assess risks does not always exist to allow for effective risk management.

4.4.2 Principles

A study conducted by Performance Management Network (1999) for TBS found that formal organisational adoption of risk principles is a best practice and part of a sound Integrated Risk

Management framework. Risks are present throughout departments and have significant influence on actions taken by personnel. Outside of areas where risk management is traditionally used in the departments, little understanding or articulation of the concept of Integrated Risk Management and how it needs to be integrated as part of normal, day-to-day planning, decision-making and performance management is evident. Integrated Risk Management is not intended to be a separate, stand-alone process.

A study by Australian Auditor General on Risk Management in Victorian Public Sector Organisations (2004) suggests that for Integrated Risk Management to be effective, managers must apply Integrated Risk Management as part of their normal duties. Integrated Risk Management should support business planning, decision-making and performance measurement rather than compete with them. When fully functional, Integrated Risk Management will allow all staff to contribute to the identification of risks. In this way, Integrated Risk Management provides an early-warning system for managers.

According to the findings of the Victorian study, risks are used mostly to highlight the impact of resource shortfalls. This is focused at a single point in time and does not consider the dynamic dimension of Integrated Risk Management. When Integrated Risk Management is used properly, employees at all levels are continuously on the alert for significant events that could effect organisational objectives, and report risk information upwards on a real-time basis without fear of reprisal.

Departments need to align their approaches for managing risks. Practices for managing risks should be consistently applied. The study indicates that practices for managing risks are not consistently applied.

Table 4.10 shows that 96 percent of participants believed that the approach for managing risks is not aligned throughout the departments. Only four percent of the 98 respondents agree that there are risk management practices in the departments. Figure 4.13 is a graphical illustration of the responses.

Table 4.10 Risk Management Practices

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	94	95.9	95.9	95.9
	2	4	4.1	4.1	100.0
	Total	98	100.0	100.0	

Figure 4.13 Risk Management Practices
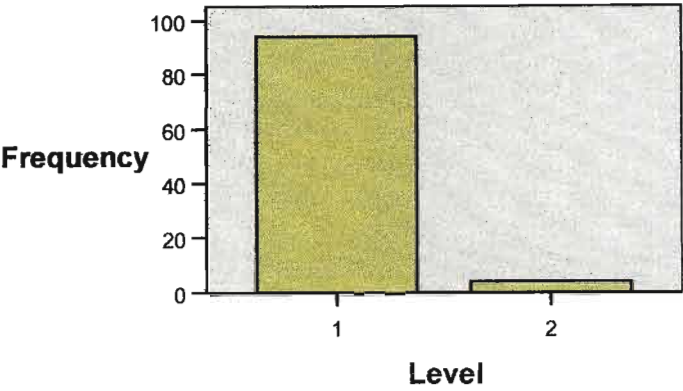
When managers make decisions, such decisions should take into account risk considerations. Important decisions should involve an analysis of underlying risks. Table 4.11 and Figure 4.14 below illustrate the current practices when making decisions. According to the study, 91 percent of the respondents indicate that risk consideration is sometimes taking place when making decisions. This indicates a process of informal approach to risk management.

Table 4.11 Decision Making

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1	1.0	1.0	1.0
	2	89	90.8	90.8	91.8
	3	4	4.1	4.1	95.9
	4	4	4.1	4.1	100.0
	Total	98	100.0	100.0	

Figure 4.14 Decision Making
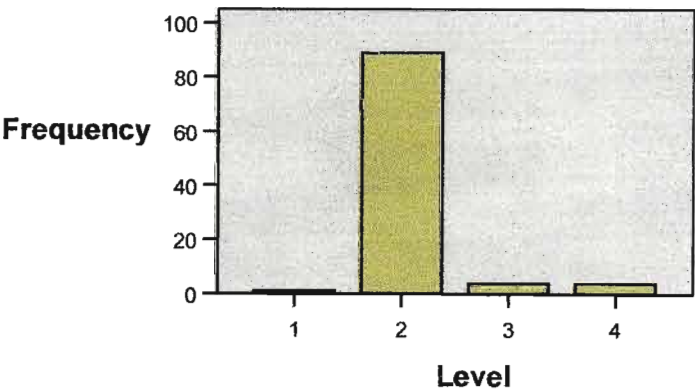
The Accounting Officers in every department should ensure that there is a linkage between performance measures and risk. They should ensure that performance measures that relate to risk are established.

The study found that this practice is not taking place. According to Figure 4.15 below 99 percent of the respondents were of the view that performance measures and risk are not linked at any stage in the planning process.

Figure 4.15 Performance Measures & Risk
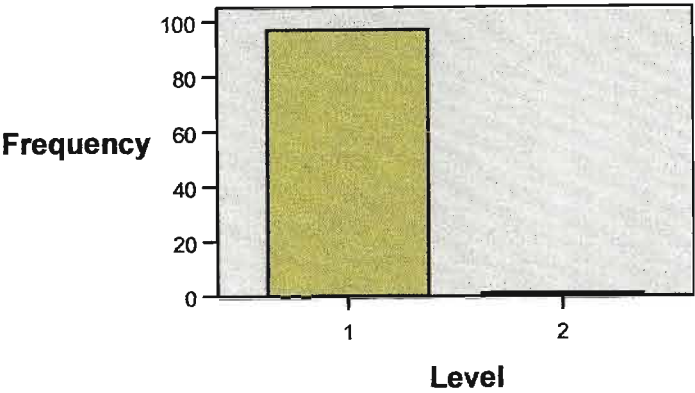
4.4.3 Communication

According to Risk Communication and Public Perception Report (2003) open communication is necessary for risk management to succeed. For example, teams rely on communication to address risks and achieve objectives. Also, many organisations report that open communication is a way to easily integrate risk management into existing processes. If communication is not there, risk management cannot be everybody's business. Managers require direct communication channels up, down and across their business units to help identify risks and take appropriate actions. New looser-information based structures are replacing traditional organisation structures with defined reporting relationships.

Open communications to facilitate the passage of risk information both vertically and horizontally is another best practice and also a key element of the organisational risk culture (Risk: Improving Government's Capability to handle Risk & Uncertainty: 2002). Divisions within departments currently operate somewhat independently, and risk information is not widely shared among employees and across all departments. Risks are discussed in formal meetings. Risk information; however, is rarely identified as such and is typically not analyzed from the perspective of likelihood and impact, or in clear relation to

impact on departmental objectives. Communicating information about risk is performed mostly on a need-to-know basis to those in authority rather than shared. Informal channels are also used to discuss risks and resolve issues within lower management levels.

A commonly held belief is evident within certain groups that risks should not be brought to the attention of senior management unless a solution has been found as this could reflect negatively on an individual's skills and ability to manage problem situations. In some instances, groups expressed frustration over difficulties encountered in notifying superiors of problems due to negative attitudes or reactions toward receiving evident as these risks are communicated up the chain of command. Regulations quite rightly restrict the free exchange of classified information.

Concerns regarding the release of highly sensitive information and the threat of negative publicity or embarrassment may also be contributing factors in the absence of commonly available risk assessments and open information exchange. Policies governing access to information are often perceived to be a deterrent to the documentation of risks and the sharing of information on a broad basis.

As indicated in Table 4.12 and Figure 4.16 below, 92 percent of the respondents believe that departments do not have common model, framework or templates to identify, assess, record and monitor risks.

Table 4.12 Tools, methods & techniques

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	90	91.8	91.8	91.8
	2	5	5.1	5.1	96.9
	3	3	3.1	3.1	100.0
	Total	98	100.0	100.0	

Figure 4.16 Tools, methods & techniques
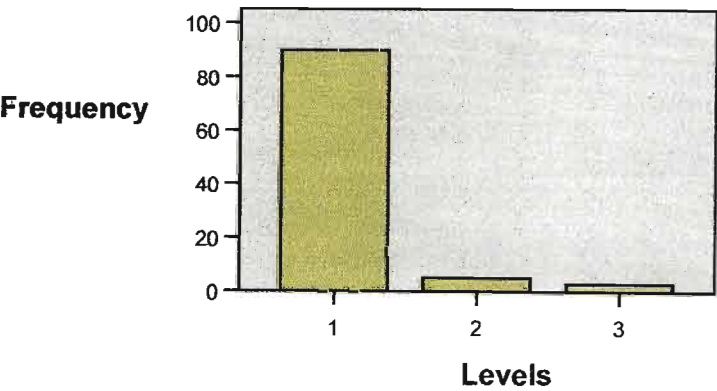
4.4.4 Risk review

Departments do not have a risk management strategy and a process to review it. This should be done on an annual basis. Similarly no department has a process to assess and review their key strategic and operational risk exposures. None of the departments have reviewed their risk strategy and risk profile in the last 12 months. One reason for this is that most of these departments only established their risk management frameworks in the last 18 months.

Most departments have not prepared contingency plans, although participants advised that they formally investigate reported incidents and implement remedial actions. No department has tested its contingency or disaster recovery plans.

Although some departments indicated to have these contingency plans, no documentation could be provided to assess the effectiveness of those plans in mitigating risks. Table 4.13 and Figure 4.17 below indicate that departments are not monitoring their risk management practices.

Table 4.13 Monitoring of RM Practices

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	96	98.0	98.0	98.0
	2	1	1.0	1.0	99.0
	3	1	1.0	1.0	100.0
	Total	98	100.0	100.0	

Figure 4.17 Monitoring of RM Practices
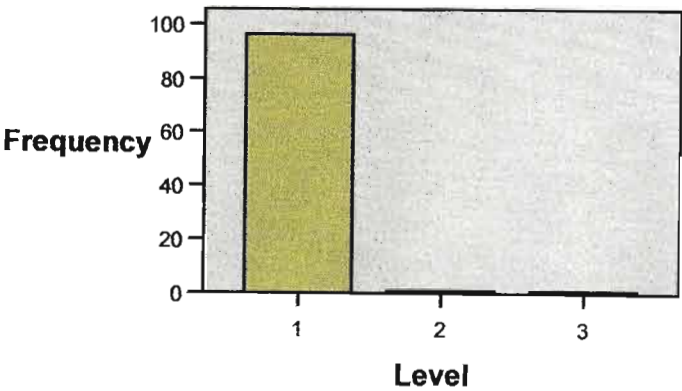
4.4.5 Approaches to managing risk

It is apparent from the study that departments use an informal approach, largely as an inherent part of their overall business processes. As stated above, internal audit was assisting all departments to develop a formal approach that will define risk and link it to government policy, organisational goals and to stakeholders.

A further analysis was undertaken to establish the degree to which departments were actively using the commonly accepted elements of risk management. A key source of information for this analysis was a Risk Management Framework on best practices.

Other approaches to risk management, such as project management standards were considered in the study.

None of the departments actively use all of the commonly accepted elements of Integrated Risk Management which include establishing a corporate focus for risk management; communicating corporate direction for risk management; integrating risk management into existing decision-making structures; and building organisational capacity.

As departments are using an informal approach to risk management, they that have not identified their main risks and have not put in place some of the commonly accepted elements of risk management. They have failed to systematically manage risk. Although departments are using informal approach to managing risk, they have recognised other departments' wide benefits. Risks should be addressed as part of the planning process. Departments should identify and monitor risks in-order to develop mitigation strategies and action plans. The strategies should be developed during the planning process.

The study found that departments are addressing risks using an informal approach. Figure 4.18 below illustrates the responses from the participants which indicate the non existence of the formal approach in addressing risks.

Figure 4.18 Addressing Risk
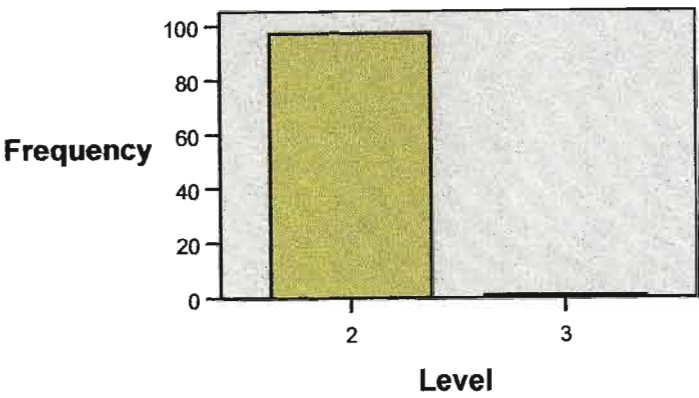
4.4.6 Applying risk to the whole of the business

A large number of departments have strong belief that they apply risk management in several areas of their business and services. However, none of them applied risk management across the whole of their business and services. They only focus on particular, high-risk exposures.

Two of the commonly accepted elements of risk management are given less attention than others by the departments. These elements are the use of rigorous methods to analyse and measure risk; and the identification and evaluation of risk mitigation strategies.

Departments in the province analyse their risks using a mixture of qualitative and quantitative methods and have no methods to identify and evaluate risk control processes. Formal methods such as effectiveness instruments, costs, and reference to compliance requirements are not used in the departments. None of the departments use cost-benefit analysis.

4.4.7 Assessment of Integrated Risk Management within Departments

Integrated Risk Management can be considered a journey, and progress is best assessed over time. In relation to the Risk Management Maturity Continuum, the assessment indicates that, overall, departments are beginning to implement most of the practices associated with the Repeatable stage.

Departments have a limited number of practices in the Defined stage, indicating that the departments is in the midst of the journey to implement Integrated Risk Management organisation-wide. Certain areas within departments appear to manage risks at a more advanced level of maturity, using characteristics of the Managed or Optimizing stages. Such functions; however, tend to operate in isolation, with little consistency and limited integration across functions.

Some risks require more sophisticated risk management than others. Since all risks are not equally important, it is impossible to determine objectively whether all risks are properly managed unless a systematic approach is used to identify, assess and prioritize risks in an organisation.

In addition, a certain amount of sophistication is desirable for managing all risks. A standard framework is considered necessary to ensure that due care is taken for the management of all potential risk issues. Departments have an opportunity to achieve a greater level of maturity for Integrated Risk Management. This maturity can be accomplished over time, focusing implementation in the short-term on priority areas that are amenable to Integrated Risk Management. Table 4.14 indicates that participants have common understanding of both risk assessment and a common definition of risk as it is applied in the whole department.

Table 4.14 Risk Assessment * Common Definition Cross tabulation

Count

		Common Definition			
		3	4	5	Total
Risk Assessment	2	1	6	2	9
	5	0	28	61	89
Total		1	34	63	98

Table 4.15 shows the relationship between risk assessment and risk tolerance. There is an awareness of risk tolerance as a result of the annual risk assessment exercise. In some departments risk assessment is however not a management priority.

Table 4.15 Risk Assessment * Risk Tolerance Crosstabulation

Count

		Risk Tolerance			Total
		2	3	4	
Risk Assessment	2	5	1	3	9
	5	1	0	88	89
Total		6	1	91	98

Table 4.16 below indicates that risk assessment is taking place but there is no framework or common model used by the departments.

Table 4.16 Risk Assessment * Tools, methods & techniques Crosstabulation

Count

		Tools, methods & techniques			Total
		1	2	3	
Risk Assessment	2	1	5	3	9
	5	89	0	0	89
Total		90	5	3	98

4.5   Enabling Risk Management and Learning from Experience

4.5.1   Organisational Culture

Promotion of an organisational philosophy and culture that says everybody is a risk manager is viewed by many organisations as more important than developing and issuing extensive policies and procedures (Delloitte & Touché: 2004). Accordingly, management of risk should be embedded in the management philosophy.

Deloitte & Touché (2004) further argue that employees that take responsibility for their actions and outcomes become risk managers. Ideally, the employees intuitively understand the organisation's goals and work towards them. The reported benefit of a risk management culture is that organisations can change more rapidly and can manage risks more effectively.

According to the Treasury Board of Canadian Secretariat (2001a) culture is one of the basic underpinnings of a sound Integrated Risk Management framework, and is central to the overall organisational risk environment. Culture is a key factor in how an organisation sets its goals and objectives, operates and adapts over time. Understanding organisational culture is crucial to building strong Integrated Risk Management tools in the departments. Not surprisingly, a number of cultures are evident within each division. The two most easily identifiable are the operational culture, and the operations support and corporate culture.

Risk management has long been recognised as an essential element of each department operations. Within specific tasks, the ability exists to innovate and take acceptable risks to achieve results. Reward and recognition for achieving results is often visible.

Although, operators would seem to have a broad base upon which to strengthen the practice of Integrated Risk Management, they tended to be resistant to suggestions that risk-management practices in their areas could be improved.

That resistance must be considered a factor in education and change management. In contrast, risk management within operational support and corporate functions is viewed as a normal part of conducting business in fields such as engineering, computer science, project management, financial management and human-resources management. These fields tend to collect and maintain data as a routine managerial function. As part of training in these fields, risk management concepts are introduced in terms of key controls that need to be in place, rather than as a broader set of management tools. At the functional level within departments, certain risks, such as financial and project risks are not actively managed. A degree of risk management efforts are dedicated to maintaining compliance with policies, procedures and other central-agency requirements.

Both operators and corporate personnel share significant cultural characteristics common with the public sector. Working group participants viewed both operators and corporate staff members as somewhat risk averse or sometimes to the point of missing opportunities. Operators and personnel with professional risk training were seen as less risk averse and more comfortable with risk and reward assessments.

Consistent with less advanced concepts still being taught in some areas, risk as an opportunity to achieve objectives is not widely understood or embraced. A risk-averse culture is common within public sector organisations and stems from a need for greater transparency, clearer accountability and greater public scrutiny than is generally required in the private sector.

Table 4.17 and Figure 4.19 show that 94 percent of the participants in the study indicated that there was no organisational culture that supports effective risk management. There is no open communication about risks, people are not encouraged to identify and discuss risks and propose innovative ways to deal with risk.

Table 4. 17 Organisational Culture

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	92	93.9	93.9	93.9
	2	5	5.1	5.1	99.0
	3	1	1.0	1.0	100.0
	Total	98	100.0	100.0	

Figure 4.19 Organisational Culture
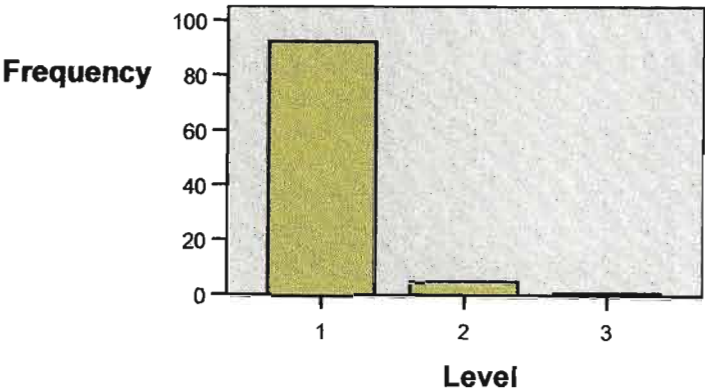
Common elements of Integrated Risk Management infrastructure include training, language and definitions, clearly identified elements of risk information, a reporting system, and technology to assist in tracking and reporting risks, and in analyzing risk information for lessons learned. Operational support and corporate functions have formal training in relation to traditional fields such as finance and human-resources management.

Table 4.18 and Figure 4.20 below indicate that managers and staff have not been trained on risk management concepts and fundamental theory across all departments. Risk management training and continuous learning are primarily addressed with on-the-job coaching and mentoring. Limited direction is provided with respect to risk management training and continuous learning. 99 percent do not agree that there is risk management training in the departments.

Table 4.18 RM Training

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	97	99.0	99.0	99.0
	2	1	1.0	1.0	100.0
	Total	98	100.0	100.0	

Figure 4.20 Risk Management Training
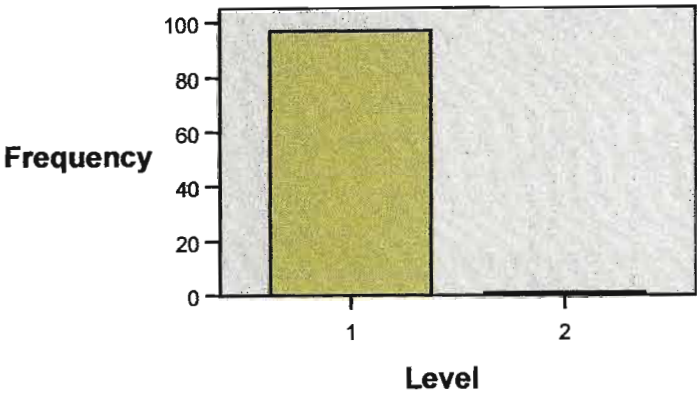
4.5.2 Risk Language

In order to integrate risk management into other management processes, the terminology should be easily understandable by managers. The approaches should also be simple to understand and use. By developing a common business risk language, managers can talk with individuals from the boardroom to the cleaner room in terms that everybody understands. This is important also in cases where everybody is expected to manage risks.

The risk management approaches and processes must be simple to be accepted by business management. Organisations have reported that complex, intellectual tools have proven to be unsuccessful. Others caution that the approaches must also be flexible to be meaningful across business units.

Though the process must be simple and useful across units, the process should not be oversimplified. The designers of the process must balance simplicity with usefulness.

The use of a common language and approach to risk and Integrated Risk Management are essential for risk management integration across an organisation. Based on National Treasury guidelines, risks are the uncertainties that need to be understood and managed in order for an organisation to achieve its objectives. Integrated Risk Management is a continuous, proactive and systematic process to understand, manage and communicate risk from an organisation-wide perspective. Integrated Risk Management allows for the making of strategic decisions that contribute to the achievement of overall departments objectives.

Without a common language and definitions, it is difficult for managers and staff to achieve an understanding of risk and determine risk management priorities in a coordinated manner.

Risk information has little value if it is not reported to those empowered to act upon it. In most departments, reporting is impacted by a number of factors. Restrictions on the passage of classified information negatively impact reporting, as does concern with respect to risk information being accessed and reported out of context. Departments have risk reporting criteria and formats specified for some areas, such as business planning and project approval.

Despite these requirements, risk information is not consistently reported or, when absent, actively sought by senior management. This is illustrated in Table 4.19 and Figure 4.21. A management infrastructure that includes common risk language, information elements, reporting guidelines and technology is not yet in place to enable widespread deployment of Integrated Risk Management. Although 90 percent of the respondents agree that there is sometimes no information reporting on risk management, 10 percent completely believe that there is no risk management information at all.

Table 4.19 RM information reporting

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	10	10.2	10.2	10.2
	2	88	89.8	89.8	100.0
	Total	98	100.0	100.0	

Figure 4.21 Risk Management information reporting
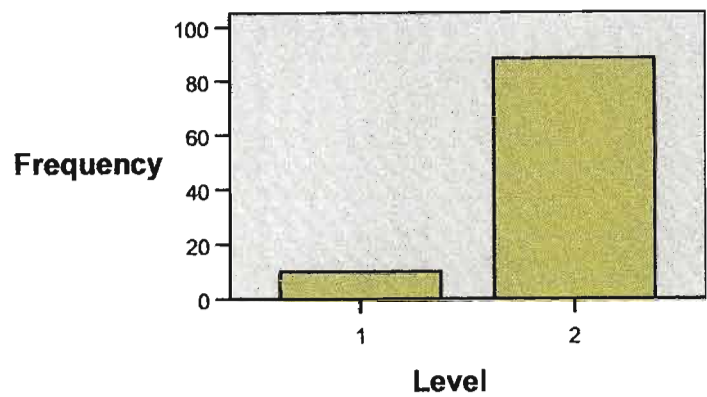
Lessons learned are an essential part of Integrated Risk Management. As indicated in Table 4.20 and Figure 4.22 below risk management information is not shared. This is supported by 99 percent of the respondents. Currently none of the departments have lessons learned databases. Lessons learned are only shared on an informal basis. These lessons and information should be used as part of training and doctrine. Lessons learned are not specific to risk management, but they do include risk management considerations. In most cases; however, processes and systems for documenting and communicating lessons learned are not very effective, and lessons learned databases are not easily accessible or widely used.

Again, legislation governing access to information and concern over negative consequences may create challenges in certain divisions within departments.

Table 4.20 RM information sharing

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	97	99.0	99.0	99.0
	2	1	1.0	1.0	100.0
	Total	98	100.0	100.0	

Figure 4.22- Risk Management Information Sharing
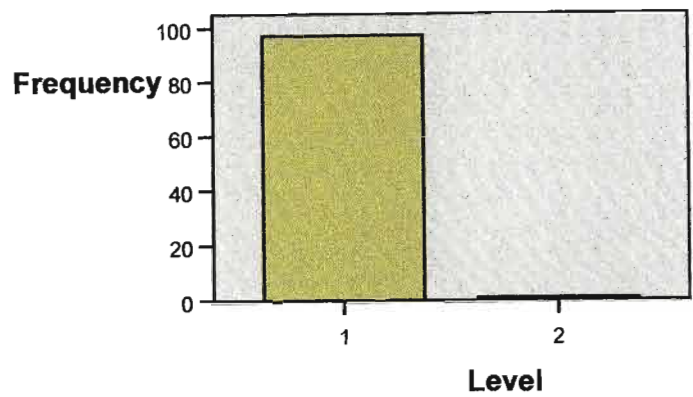
Technology should be used to store information and to facilitate reporting. Most organisations use software to log risk information and facilitates the aggregation and reporting of information to senior management. Figure 4.23 below illustrates that departments are not taking advantage of available technology to store their information on risk.

Figure 4.23 Technology
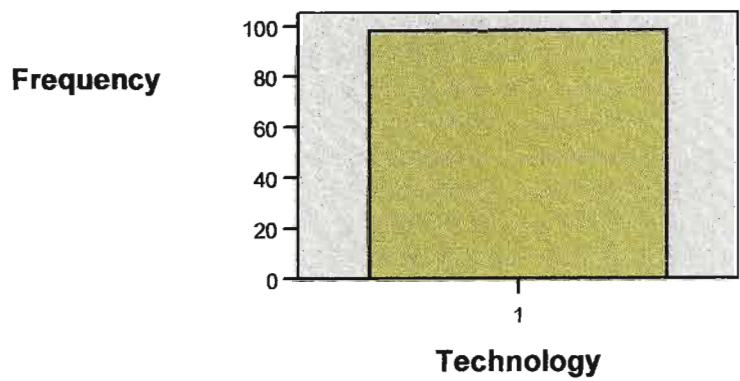
4.5.3 Risk management leadership

Successful risk management depends on strong leadership. Active engagement in risk management by the Accounting Officer or senior executive management usually means that risk management is part of the corporate and strategic direction of the department, and successfully integrated into the governance and management structures of departments.

Similar leadership by business unit managers also can be an indicator of a risk management culture. The

study identified several departmental roles that directly lead and strategically manage risk. Departments have either the Accounting Officer or Chief Financial Officer leading and strategically managing risk. However, risk information is reported to Accounting Officer or senior executive management in majority of departments. Table 4.21 and Figure 4.24 below indicate 98 percent of participants believe recognition for risk management is almost not recognizable within departments.

Table 4.21 Recognition for RM

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	96	98.0	98.0	98.0
	3	1	1.0	1.0	99.0
	4	1	1.0	1.0	100.0
	Total	98	100.0	100.0	

Figure 4.24 Recognition for Risk Management
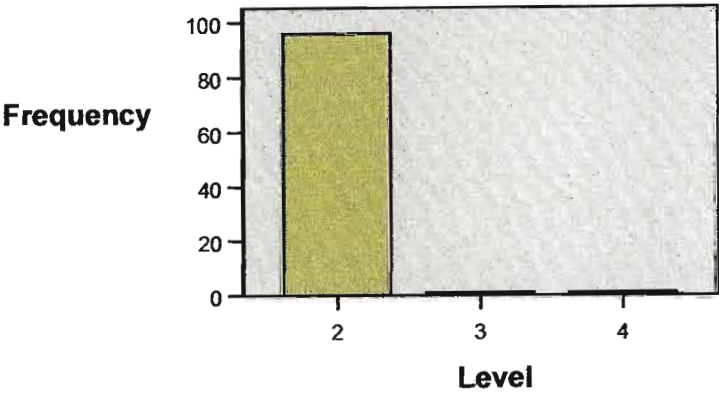
4.6 Effectively Implemented Risk Management

An organisation's risk management strategies and processes are operating effectively when they are in place, are being implemented as intended, and providing the value and outcomes required. An organisation is implementing its risk management strategies effectively if it understands its risks thoroughly and applies all proposed risk management strategies and processes to the intended functions and activities. In order to meet this criterion, a department needs to identify major internal and external risks, at least annually; have a risk management co-coordinator, committee or unit; have methods to identify and evaluate risk controls; apply risk management to most parts of its business and services, including ensuring contractors have appropriate risk management practices; report and record incidents and take remedial actions; have methods to communicate risk management practices; train staff in risk

management, at least annually; improve business processes as a result of its risk management strategies; and meet the criteria for having appropriate risk management strategies in place.

Departments that have identified their major internal and external risks, most identified them at least annually. None of the departments have a risk management committee or unit in place although all the departments have acknowledged the importance of such body. Almost half of the departments have no methods to identify and evaluate risk controls. None of them have ensured that key contractors and service providers had suitable risk management practices in place. Departments do not effectively communicate their risk management strategies to stakeholders. Employees are not provided with some form of training in risk management in the last year.

All departments believe that there could be recognised improvements to their departments resulting from risk management strategies. The study found that none of the departments were effectively implementing their risk management strategies. Departments are mainly limited in meeting the risk criteria by failing to apply risk management to the whole of the business; or failing to use rigorous quantitative and qualitative methods for risk analysis and controls.

4.7   Assessment of IRM Practices in Relation to the IRM Framework

Table 4.22 describes current Eastern Cape Provincial Government Integrated Risk Management practices in relation to the Integrated Risk Management elements and results

TABLE 4.22 Comparison of IRM Framework to EC Departments current practice

NT INTEGRATED RISK MANAGEMENT FRAMEWORK ELEMENTS AND EXPECTED RESULTS	EC DEPARTMENTS SUMMARY OF CURRENT CONTEXT
Developing the Corporate Profile • The organisation's risk are identified through environmental scanning • The current status of risk management within the organisation is assessed • The organisation's risk profile is identified	• Across all departments, an intuitive approach is generally used for risk identification and assessment • The current state of risk management in terms of challenges, opportunities, capacity, practices, culture has been assessed on limited scale • The departments have not developed a department-wide profile of risks, although risks profiles have been developed in certain areas where risks are actively managed.
Establishing an Integrated Risk Management Function • Management direction on risk management is communicated, understand and applied • An approach to operationalise Integrated Risk Management is implemented through existing decision-making and reporting structures • Capacity is built through development of learning plans and tools	• Limited direction has been provided for risk management • There is no coordinated approach for training and continuous learning in relation to Integrated Risk Management. Risk management training and continuous learning is primary addressed through functional and job specific training.
Practicing Integrated Risk Management • A common risk management process is consistently applied at all levels • Results of risk management practices at all levels are integrated into informed decision-making and priority setting • Tools and methods are applied • Consultation and communication with stakeholders is ongoing	• Eastern Cape Provincial government departments do not have a common risk management process consistently applied at all levels within the organisation. Risk management processes, methods, tools and practices vary between areas where risks are actively managed • Risk information is not aggregated and reported on a department-wide basis. Decision-making and priority setting does not consider risks in terms of funding and resources gap. • There is limited consultation and communication with stakeholders both internal and external to the departments.
Ensuring Continuous Risk Management Learning • A supportive work environment is established where learning from experience is valued, lessons are shared • Learning plans are built into an organisation's risk management practices • Results of risk management are evaluated to support innovation, learning and continuous improvement • Experience and best practices are shared, internally and across government	• Provincial departments do not have consistent work environment for risk management. • Learning plans for Integrated Risk Management have not been developed. • Evaluation of risk management practices is generally not conducted unless an event occurs, which has significant implications.

4.8 Summary

The results of the study indicate a gloom picture of Integrated Risk Management practices in the Eastern Cape provincial departments. There is a growing appreciation across the Public Service of the need to strengthen risk management practices and develop a more strategic and corporate-wide focus. Implementing Integrated Risk Management will depend largely on an organisation's state of readiness, overall priorities and the level of effort necessary to implement the various elements. As a result, developing a more mature risk management environment will require sustained commitment and will evolve over time.

None of departments are working against the commonly accepted elements for Integrated Risk Management, and this effort is yet to be applied across the whole of their business and services.

Measured against the criteria, none of the departments have appropriate risk management strategies and none have strategies that are effectively implemented, strategically managed, and integrated with governance and management structures. Departments do not explicitly identify and assess their key risks and there is still uncertainty around the rigour and reliability of specific outputs and outcomes achieved from adopting formal risk management processes and structures. As well, departments do not always report explicit risk information to their key internal or external stakeholders. This may be because some material is sensitive, but the result is that there may not be a complete and free flow of risk information within or across government entities.

CHAPTER 5   CONCLUSION AND RECOMMENDATIONS

5.1   Introduction

This chapter provides an overview of the study restating the problem statement and justifying the methodology used to explore them. It summarises the main findings before discussing the significant issues raised in the exploratory research as an evaluation of the findings in Chapter 4. The main contributions emanating from this study is then presented from a general perspective, while the salient Integrated Risk Management practices and strategies, regarding the implementation of the Integrated Risk Management model is considered. The possible implications and recommendations emerging from the study are discussed. Finally, limitations and directions for the future research are presented.

5.2   The Research Motivation

In this study, the research motivation, in large measure is taken from the principle from the increased demand by parliamentarians for greater transparency in decision-making, better educated citizens, globalisation, technological advances, and numerous other factors, adapting to change and uncertainty while striving for operating efficiency is a fundamental part of the Public Service. Such an environment requires a stronger focus on Integrated Risk Management practices within departments in order to strategically deal with uncertainty, capitalise upon opportunities, and inform and increase involvement of stakeholders to ensure better decisions in the future. Indeed a review of the literature indicates that integrating risk management into other business processes is becoming a global issue.

Consequently, the goal of this research has been to provide guidance to advance the use of a more corporate and systematic approach to risk management whilst contributing to building a risk-smart workforce and environment that helps create an environment that allows innovative methods of dealing with risks and responsible risk-taking while ensuring legitimate precautions are taken to protect the public interest, maintain public trust, and ensure due diligence.

This is with a view to improve our knowledge and enquiry of information on Integrated Risk Management and tools and techniques that can be used to implement it from a government sector's perspective. The

investigations points out that successful implementation of Integrated Risk Management rest on four facets. These are (a) identifying important risks and priorities, (b) establishing roles and responsibilities for risk management (c) applying an Integrated Risk Management approach and (d) enabling risk management and learning from experience.

5.3 General Summary of the Research

The primary research problem statement was:

The handling of risks to the government departments has become more challenging in recent years, as information sources multiply and public expectations change resulting in an increase in fraud and corruption which are the indications of a lack of internal controls and the inability of the departments to implement risk management systems. Most government departments currently manage their risks using traditional solo approaches. The departments that claim to have started using the integrated approach are not reporting any improvements on outcomes for successful risk management. The tendency of the departments is to delegate the risk management function to their internal control units. The research attempted to address the following research questions:

Will the government departments be in a position to manage risks if there is no coordinated approach with other business units?

Has the top management taken steps to ensure that effective systems of risk management are established as part of the framework of internal control?

It was hypothetically suggested that government departments are not realising the benefits of improved risk management as risk is managed using traditional solo approaches. Instead of adopting an integrated approach to risk management implementation, departments delegate the risk management function to their internal control units.

The examination of 13 Eastern Cape Provincial Government departments allow a conclusion with a 95 percent level of accuracy that departments are not realising the benefits of improved risk management. The current practice in government is to manage risk using traditional solo approaches. There is no clear evidence that departments have adopting an integrated approach to risk management implementation, Instead, departments delegate the risk management function to their internal control units. There are no

clear approaches, tools and techniques that have been adopted by managers in government departments in the Eastern Cape Provincial that would lead to successful implementation and sustainability of risk management.

Government departments in the Eastern Cape have no coordinated approach with other business units in managing risk. The top management has taken no visible steps to ensure that effective systems of risk management are established as part of the framework of internal control.

Although some departments are addressing risk management, in some way, as part of their organisational activity, none are actively engaged in maintaining or establishing effective risk management strategies. Most departments have indicated to have started the process of integrating risk into other management processes since the beginning of 2000. Evidence from the research revealed that the approach they use is informal in nature and is not addressing the elements set out in risk management framework. Integrated Risk Management is not yet an established or mature business discipline across the government sector.

The low level of contingency planning and investigation of reported incidents, evidenced through the interviews, is cause for concern. Recovery from key events/crisis is important in minimising damage to the State's services, finances and reputation. However, the non existence of contingency or disaster recovery plans is of concern. It also would appear from the results that the contingency and disaster recovery planning is taking place separately from the development or implementation of other business risk management strategies.

Similarly, assurance by departments that key contractors and service providers have suitable risk management practices also appears to be conducted separately from any structured approach to risk management.

From the study, there is no evidence that departments have the capacity to identify their key public sector risks exposures in the Eastern Cape Provincial government. Based on each department's perceptions of their key public sector risks, there is the possibility that departments do not have a clear understanding of their risk exposures that may impact on the government or, particularly, on other agencies. There also may be areas of exposure to public sector risks that are being covered by departments with less explicit risk

management capacity.

Departments are using a solo approach in managing risks. They are not realising the benefits of using an integrated approach to risk management. Although risks are identified they are not prioritised. Some departments have risk management processes but there is no evidence of working with the commonly accepted elements of Integrated Risk Management.

Roles and responsibilities for managing risks are not formalised and are poorly understood. Risk management strategies do not exist across the departments. While the practice of teaming is recognised as best practice, there was no common practice concerning the composition of teams across the departments.

Practicing Integrated Risk Management is not taking place. The study has found that almost all departments do not approach risk management formally, from a perspective defined by, and linked to government policy, organisational goals and stakeholder expectations. None of the departments incorporate risk management into business and strategic planning processes. Departments have informal risk review process but none incorporate risk management into their budgeting processes.

Ensuring continuous risk management learning is not taking place. Departments do not have consistent work environment for risk management. Learning plans for Integrated Risk Management have not been developed. Evaluation of risk management practices is generally not concluded unless an event occurs, which has significant implications.

5.4 Contribution to Integrated Risk Management Practices and Strategies

This section lists those ideas highlighted in this research which are believed to contribute to a general understanding of how government departments may develop strategies for Integrated Risk Management implementation, so as to create a Risk Management system which will allow them to harness the full benefits of Integrated Risk Management. It also attempts to position Integrated Risk Management as a value-enabling strategy as it seeks legitimacy as a management process.

The present investigation also sought to highlight some of the ways in which Integrated Risk Management can be integrated into other management processes. This provides an approach for the departments to

strengthen Integrated Risk Management, an overview of critical success factors, recommendations to commence Integrated Risk Management implementation, and a road map of activities to consider for long-term Integrated Risk Management implementation.

In many ways, the results of the study indicate that effective risk management processes are not in place in some areas of the departments. However, opportunities exist to strengthen and integrate risk management.

The departments do not have a continuous, proactive and systematic process to understand, manage and communicate risk on an organisation-wide basis. An opportunity exists; therefore, to introduce a common and organisation-wide framework for Integrated Risk Management.

Steps could be taken to build a more supportive culture for Integrated Risk Management within the departments. Integrating risk management with existing management processes will help to maximise the effectiveness of these processes without the need for significant resources. Figure 5.1 below suggests a model which departments can use as part of integrating risk management in their departmental strategic plan.

Some departments are already actively managing certain risks in some key areas. To further implement Integrated Risk Management, overall guidelines and infrastructure should be developed to provide a standard and consistent framework within which to identify, assess, prioritize and manage risks.

The main departmental challenges for moving forward with Integrated Risk Management are no different from those of other large and complex organisations. Several key success factors should be understood before moving forward with Integrated Risk Management. Across all departments, management has not worked on implementing and fostering a culture of proactive and Integrated Risk Management in their areas of operations.

In addition to the key success factors and lessons learned identified by other organisations, Eastern Cape Provincial departments will need to overcome certain barriers identified in the assessment of Integrated Risk Management practices.

Figure 5.1 INTEGRATED RISK MANAGEMENT AS PART OF DEPARTMENT STRATEGIC PLAN

Risk identification, assessment, response across capability programs

Focus resources on areas of greatest risk where mitigation is required

Identify strategy risks

Capability-Based Planning

Strategic Visioning

Resource Prioritisation

Set Departmental objectives

Department Strategic Plan

Risk identification & assessment across divisions

Business Planning

Risk Management Activities

Performance Management

Resource Management

Link to capability program risks

Key measures linked to areas of greatest risk or where mitigation is required

Ongoing risk identification mitigation and monitoring activities to maximize resources in achieving objectives

Source: Adapted from Delloitte & Touché (2004)

Some organisations address one source of risk at a time as part of their existing management processes. Other organisations identify and assess all sources of risk at once and then establish priorities for action. Others consider all risks and actions but only within a sub-component of their operations as a pilot project. But most organisations seek early successes that will help build momentum and promote further

development toward their ideal Integrated Risk Management approach. Sources of risks may be identified from common categories of risks.

5.5   Implications and Recommendations

A number of implications both for practitioners, particularly those involved in or planning organisation-wide Integrated Risk Management practices are noted next.

Departments should focus on key actions in the near-term to establish and embed Integrated Risk Management. Heads of departments should champion Integrated Risk Management. For Integrated Risk Management to work, senior management must be convinced of its benefits and it needs to be championed from the top. Accounting Officers should focus on raising executive awareness by promoting Integrated Risk Management within senior management committees. Integrated Risk Management practices, such as structured risk identification, analyses, risk mappings, and open communication about risks should be encouraged.

Departments should develop their own framework for Integrated Risk Management, focusing on the promulgation of a policy, principles, roles, process and common language in which all departmental divisions can then link efforts. The Integrated Risk Management framework should be simple, clear and flexible. A framework has been developed by the Public Service Commission.

It is also recommend that categories of risks be identified for consistent departmental capturing/roll-up. Departments should in association with their communications directorate, legal division and Information Technology divisions develop approaches to communicating sensitive information/reporting pertaining to risks.

Other departments have cited various issues, such as damage to the public interest and incomplete advice for decision-making, as rationale for severing risk information from reports, depending on its stage of development and validation.

Departments should perform a coordination role across various directorates and begin developing a corporate risk profile. Each directorate, in conjunction with Accounting Officer, should define the areas where a more rigorous Integrated Risk Management approach is required to identify and report risk.

Departments should initiate risk-awareness training for managers and employees, and promote open communication of risk. To secure the full benefits of Integrated Risk Management, departments need to embed an open and sharing information culture. Managers at all levels need to encourage full disclosure of risk information without fear of reprisal. Integrated Risk Management successes in some divisions should be used to promote the benefits of Integrated Risk Management. Many risks and risk-mitigation strategies, either operational or business practices, have direct relationships to ethics or values. Ways to leverage the Departmental Ethics Program; therefore, as it pertains to Integrated Risk Management, should be investigated.

Departments should prepare a long-term departmental action plan for Integrated Risk Management implementation. This action plan should specify roles, responsibilities and target dates, and consider resource implications. Given the lack of maturity of risk management practices in some areas of departments, implementation should include areas where success will be evident quickly.

The Eastern Cape Government departments should without delays adopt formal Integrated Risk Management approaches that are appropriate to the department's level of risk.

National Treasury should provide the departments with clear Integrated Risk Management guidelines, processes and procedures, including requirements that risk management key performance indicators be identified and included in the performance responsibilities of members of Accounting Officers and their executive management.

Audit Committees independently assess the appropriateness and effectiveness of risk identification and management within each department for the Accounting Officer or executive management. Certification to the appropriateness or effectiveness of their risk management should be incorporated with other existing attestations to the government, such as tax-related documents; and report on their risk management strategies in their annual reports, identifying and prioritising key risks and describing how

they are assessed and managed.

Government departments should rigorously evaluate risks and risk treatments, linking risk criteria to government policy, organisational objectives and stakeholder expectations and, where possible, use cost-benefit analysis. Government departments must establish appropriate Integrated Risk Management strategies that identify and treat public sector risks.

5.6   Limitations of the study

This research did not test the quality of a department's public sector risk identification and assessment, participants were asked if their departments' main risks have the potential to impact on the business of other organisations and/or on the whole of Eastern Cape.

The research findings drawn from study should have also involved a sample of other government departments in other provinces to better compare the results from the various samples in terms of the use Integrated Risk Management techniques in their departments to self-improve their quality, and effectiveness of the approaches they are using to implement risk management.

The research findings drawn from Chapter 4, where the researcher was actively involved in interviewing participants might have been biased by the nature of the researcher's past involment in the departments. This intervention might have biased the research findings by leading participants to behave in an artificial way, exactly what the researcher wanted to avoid by using action research. For example, the nature of the researcher's relationship with the employees of the departments who participated in the study might have led staff to provide more detailed responses than they would have done otherwise. However, although it is understood that the researcher's intervention might have biased the research findings, the researcher believes that the context created by the researcher's intervention has been documented in enough detail to allow for its replication in similar circumstances.

5.7   Future Research

This section summarizes ideas for potential future work, as it relates to the design of an Integrated Risk Management system. This list does not include minor improvements or cosmetic changes that are in the implications of implementation of the Integrated Risk Management framework. This research has suggested how an Integrated Risk Management framework may be specified by utilizing a model based on the Canadian approaches. The study does not propose a high-level casual model of latent factors which impact the implementation of Risk Management practices in an organisation. A designed model will involve the use of systems theory, at a design level, to conceptualize both learning- oriented, and strategy-oriented Integrated Risk Management system.

5.8   Summary

The findings in this research offer a number of approaches departments may use to implement their Integrated Risk Management frameworks. The study previously summarised these, but found that the underlying dialogue is that managers need a corporate-wide strategy to implement their Integrated Risk Management policies. The researcher discussed throughout this work, and intimated that any successful Integrated Risk Management framework should have the following components:

1. Senior management must be convinced of its benefits, and it needs to be championed from the top
2. The Integrated Risk Management framework should be simple, clear and flexible
3. Develop approaches to communicating sensitive information/reporting pertaining to risks
4. Perform a coordination role across various divisions and begin developing a corporate risk profile
5. Initiate risk-awareness training for managers and employees, and promote open communication of risk
6. Prepare a long-term action plan for Integrated Risk Management implementation.

These components are distilled from the results of the study. However, the approaches departments may use in implementing Integrated Risk Management have been fully explored under recommendations above. The researcher recommends that, in order to obtain the full benefits, departments led by top management need to take a fresh look at the concept of Risk Management in order to realise the potential of implementing an integrated approach to risk. This should be done at the beginning of the planning process.

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ANNEX A: CONRIBUTING DEPARTMENTS

CDOH	Eastern Cape: Department of Health
CDOE	Eastern Cape: Department of Education
CPT	Eastern Cape: Provincial Treasury
CDOT	Eastern Cape: Department of Transport
CDEAE	Eastern Cape: Department of Economic Affairs & Environment
CDORPW	Eastern Cape: Department of Roads & Public Works
CDOSAC	Eastern Cape: Department of Sports, Arts & Culture
COTP	Eastern Cape: Office of the Premier
CPL	Eastern Cape: Provincial Legislature
CDOLGTA	Eastern Cape: Department of Local Government & Traditional Affairs
CDOALA	Eastern Cape: Department of Agriculture & Land Affairs
CDOSL	Eastern Cape: Department of Safety & Liaison
CDOSD	Eastern Cape: Department of Social Development

ANNEX B- QUESTIONNAIRE

STATEMENTS to help gather information in relation to integrated risk management **Please respond in relation to your department**	SCALE to help determine the extent to which integrated risk management is practiced	COMMENTS to provide examples in relation to the statement and scale
	Never Sometimes Always Don't know/ Doesn't apply 1 2 3 4 5 ☐ ☐ ☐ ☐ ☐ ☐	

PART 1- IDENTIFYING IMPORTANT RISKS AND PRIORITIES

1. A common definition of risk issues across the department, i.e. when people discuss risk, it means the same thing throughout the department	1 2 3 4 5 ☐ ☐ ☐ ☐ ☐ ☐	
2. Risk tolerances are understood, i.e. there is an understanding of the degree of risk is acceptable within your department	1 2 3 4 5 ☐ ☐ ☐ ☐ ☐ ☐	
3. The environment is scanned and potential risks are identified on a regular basis, i.e. sources of risks, opportunities and threats are regularly reviewed.	1 2 3 4 5 ☐ ☐ ☐ ☐ ☐ ☐	
4. Important risks are formally assessed using established criteria, on a regular basis, i.e. the assessment of risks is done in terms of impact and likelihood.	1 2 3 4 5 ☐ ☐ ☐ ☐ ☐ ☐	
5. Important risks are monitored on an ongoing basis, i.e. there are regular forums for senior managers where risks are reviewed. Actions to mitigate these risks are also discussed.	1 2 3 4 5 ☐ ☐ ☐ ☐ ☐ ☐	
6. Risk management priorities are in line with departmental objectives, i.e. risks are prioritised for action and these priorities line up with the priorities of the department.	1 2 3 4 5 ☐ ☐ ☐ ☐ ☐ ☐	

B-1/5

STATEMENTS to help gather information in relation to integrated risk management Please respond in relation to your department	SCALE to help determine the extent to which integrated risk management is practiced	COMMENTS to provide examples in relation to the statement and scale
	Never Sometimes Always Don't know/ Doesn't apply 1 2 3 4 5 ☐ ☐ ☐ ☐ ☐ ☐	

PART 2 – EASTABLISHING ROLES AND RESPONSIBILITIES FOR RISK MANAGEMENT

STATEMENTS	SCALE	COMMENTS
7. Risk management strategies are understood, i.e. there is a clear direction as to how risks are to be managed within your department. Objectives and policies are in place.	1 2 3 4 5 ☐ ☐ ☐ ☐ ☐ ☐	
8. A risk management committee provides support, i.e. there is a designated champion for risk management and this champion provides direction and disseminates information and best practices regarding risk management.	1 2 3 4 5 ☐ ☐ ☐ ☐ ☐ ☐	
9. Stakeholders are informed of importance of risks, i.e. those that contribute or could be impacted are kept informed of significant risks.	1 2 3 4 5 ☐ ☐ ☐ ☐ ☐ ☐	
10. Roles and responsibilities for managing risks are understood, i.e. it is clear that everyone has a role in managing risk within your department and they know what they need to do; there are designated risk owners and risk managers.	1 2 3 4 5 ☐ ☐ ☐ ☐ ☐ ☐	
11. Individuals with accountability for managing risks have the required authority, i.e. the risk owners are managers, have the necessary authority to act; risks are not assigned to individuals who do not have authority to deal with them.	1 2 3 4 5 ☐ ☐ ☐ ☐ ☐ ☐	

STATEMENTS to help gather information in relation to integrated risk management Please respond in relation to your department	SCALE to help determine the extent to which integrated risk management is practiced	COMMENTS to provide examples in relation to the statement and scale
	Never Sometimes Always Don't know/ Doesn't apply 1 2 3 4 5 ☐ ☐ ☐ ☐ ☐ ☐	

PART 3- APPLYING AN INTEGRATED RISK MANAGEMENT APPROACH

STATEMENTS	SCALE	COMMENTS
12. Overall, there is a defined process for risk management, i.e. the process to be followed within your department to identify, act upon and monitor risks is clear to all individuals.	1 2 3 4 5 ☐ ☐ ☐ ☐ ☐ ☐	
13. Practices for managing risks are consistently applied, i.e. the approach for managing risks is aligned throughout your department.	1 2 3 4 5 ☐ ☐ ☐ ☐ ☐ ☐	
14. Tools , methods and techniques are used for managing risk, i.e. there is a common model, frameworks or template used to identify, assess, record and monitor risks.	1 2 3 4 5 ☐ ☐ ☐ ☐ ☐ ☐	
15. Risks are addressed as part of the planning process, i.e. risks are identified and monitored, and mitigating strategies and action plans are developed as part of the planning process.	1 2 3 4 5 ☐ ☐ ☐ ☐ ☐ ☐	
16. Important decisions involve an analysis of underlying risks, i.e. key decisions take into account risk considerations.	1 2 3 4 5 ☐ ☐ ☐ ☐ ☐ ☐	
17. There is a linkage between performance measures and risk, i.e. performance measures that relate to risk have been established within your department.	1 2 3 4 5 ☐ ☐ ☐ ☐ ☐ ☐	
18. Practices for managing risks are monitored for effectiveness, i.e. risk management activities are regularly reviewed using metrics to ensure they contribute to effectively managing risk, and changes are implemented.	1 2 3 4 5 ☐ ☐ ☐ ☐ ☐ ☐	
		B-3/5

STATEMENTS to help gather information in relation to integrated risk management Please respond in relation to your department	SCALE to help determine the extent to which integrated risk management is practiced	COMMENTS to provide examples in relation to the statement and scale
	Never Sometimes Always Don't know/ Doesn't apply 1 2 3 4 5 ☐ ☐☐☐ ☐ ☐	
19. Risk management information is reported, i.e. there are reports prepared which highlight risks and risk mitigation activities at every level.	1 2 3 4 5 ☐ ☐☐☐ ☐ ☐	
20. Risk information is shared within your department, with other divisions or on a department-wide basis, i.e. risk information is discussed with other groups proactively, with the management of risks adjusted accordingly.	1 2 3 4 5 ☐ ☐☐☐ ☐ ☐	
21. Technology is used to store information and to facilitate reporting, i.e. software is used to log risk information and facilitate the aggregation and reporting of information to senior management.	1 2 3 4 5 ☐ ☐☐☐ ☐ ☐	

STATEMENTS to help gather information in relation to integrated risk management Please respond in relation to your department	SCALE to help determine the extent to which integrated risk management is practiced	COMMENTS to provide examples in relation to the statement and scale
	Never Sometimes Always Don't know/ Doesn't apply 1 2 3 4 5 ☐ ☐ ☐ ☐ ☐ ☐	

PART 4- ENABLING RISK MANAGEMENT AND LEARNING FROM EXPERIENCE

22. Organisational culture supports effective risk management, i.e. there is open communication about risks; people are encouraged to identify and discuss risks and propose innovative ways to deal with risk.	1 2 3 4 5 ☐ ☐ ☐ ☐ ☐ ☐	
23. Training on risk management concepts and fundamental theory is provided to improve risk management competencies, i.e. training has been developed and implemented to ensure departmental individuals involved in risk management have the right skills and competencies; training is available and on going.	1 2 3 4 5 ☐ ☐ ☐ ☐ ☐ ☐	
24. There is recognition for managing risks	1 2 3 4 5 ☐ ☐ ☐ ☐ ☐ ☐	

RES-ONDENT	CD	RT	ES	RA	RM	MP	RMS	RMC	STKH	RR	AUTH	RMPRO	RMPRAC	TMT	AR	DM	PMR	MRMP	RMIR	RMISH	TECH	OC	RMT	RMR
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89	5	4	2	5	3	2	2	1	1	3	3	1	1	1	2	2	1	1	2	1	1	1	1	2
90	4	4	2	5	3	2	2	1	1	3	3	1	1	1	2	2	1	1	2	1	1	1	1	2
91	5	4	2	5	3	2	2	1	1	3	3	1	1	1	2	2	1	1	2	1	1	1	1	2
92	4	4	2	5	3	2	2	1	1	3	3	1	1	1	2	2	1	1	2	1	1	1	1	2
93	5	4	2	5	3	2	2	1	1	3	3	1	1	1	2	2	1	1	2	1	1	1	1	2
94	5	4	2	5	3	2	2	1	1	3	3	1	1	1	2	2	1	1	2	1	1	1	1	2
95	5	4	2	5	3	2	2	1	1	3	3	1	1	1	2	2	1	1	2	1	1	1	1	2
96	4	4	2	5	3	2	2	1	1	3	3	1	1	1	2	2	1	1	2	1	1	1	1	2
97	5	4	2	5	3	2	2	1	1	3	3	1	1	1	2	2	1	1	2	1	1	1	1	2
98	4	4	2	5	3	2	2	1	1	3	3	1	1	1	2	2	1	1	2	1	1	1	1	2

ANNEX: D- COMMON RISK THEMES

The following common risk themes were identified for the Departments by reviewing the top ten assessed risks (assessed in terms of inherent risk) from the different programmes.

Number	Risk Description
1	**Shortage of skills (key personnel)** • Inadequate expertise and capacity across the programmes • Inadequate skills available for budgeting and reporting • Failure to retain skilled staff
2	**Information Technology risk** • Inadequate capacity and competence to utilise management information systems, • Inadequate security over sensitive information e.g. unauthorised access to information, • Financial Information Systems.
3	**Negative image of the Departments** • Communities and media due to dissatisfaction with service delivery negatively affect departments' image.
4	**Lack of monitoring of agents implementing projects on behalf of the Department** • No service level agreements in place to address service delivery and monitoring requirements by agents • No appropriate accreditation criteria in place for the selection of third parties responsible for implementing projects on behalf of the Department
5	**Community Relations** • Department has no control or influence over creation of a positive relationship with communities • Creation of false expectations within the communities by deploying incompetent staff members to service the communities
6	**Inadequate financial management** • Inaccurate cash flow projections • Lack of understanding by senior managers on budget process
7	**Tendering Process** • Negative impact on service delivery (Procurement process is ineffective)

ANNEX E: COMPARISON OF IRM KEY ELEMENTS AGAINST EASTERN CAPE PROVINCIAL GOVERNMENT PRACTICE

IRM Key Element/Characteristic	THE Departments Comparison (Generally)
Continuous, dynamic risk identification as early warning	Relatively sporadic & annual identification
Possible risk events proactively identified before occurrence	Largely reactive to risk event occurring
Systematic Process in place	Risks considered principally as they relate to business planning
Structured analysis of likelihood & impact	Mainly intuitive analyses, although pockets where structure used
Everyone identifies risks	Mostly a manager's responsibility to identify risks
Organisation-wide process	Process not yet in place
Risk managed at lowest practical level	Risk tolerances often not known or communicated; therefore, difficult for lower levels to manage risks
Risks prioritised	Unstructured prioritisation
Reporting of prioritised risks upwards	Reporting partially through annual business planning
Mitigation plans commensurate with severity & likelihood or risks	Few mitigation plans based on risk assessment
Open communication of risks	Limited horizontal communication