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Integrated Risk Management: A Framework for Fraser Health

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Integrated Risk Management

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Executive Summary

Integrated risk management refers to the culture, processes and structures that allow an organization to understand and manage risk and opportunities to support achievement of organization goals and objectives. It is about corporate design and improvement, and changing systems of work. It is about replacing traditional risk management principles with those found in organization development, the social sciences, knowledge management and story telling.

Fraser Health is operating in a more complex and riskier environment than ever before, characterized by change and uncertainty. Risk is inherent in all that we do. We cannot eliminate risk. Rather, we must seek to better manage risk to protect and enhance the value Fraser Health delivers to the community. An integrated approach to managing risk will enable Fraser Health to meet this challenge.

This framework provides a common approach for managing risk across the organization. It embeds the principles of governance, integration and compliance to ensure required standards for quality, safety, accountability and transparency are met. It promotes a proactive and strategic approach to managing risk through alignment of risk management with organization planning, priority setting and decision-making processes.

Fraser Health's Integrated Risk Management Framework is guided by the following principles:

1. All forms of risk will be considered in decision-making.
2. The impact of uncertainty on decisions will be acknowledged and assessed.
3. Ownership and accountability for risk and risk management will be retained at the point of influence.
4. Risk tolerance levels will be established and monitored. Risks in excess of established tolerances will be identified and reported.
5. Best practices in integrated risk management will be adopted and advanced.
6. Compliance with policies and procedures will be monitored.
7. Existing risk management practices within Fraser Health will be leveraged.
8. All important risks and integrated risk management deficiencies will be documented and reported.
9. Risk management is mandatory, not optional.

The framework is built upon the following components essential to integrated risk management practice: internal environment, objective setting, event identification, risk assessment, risk response, control activities, information and communication, and monitoring and reporting.

The framework outlines roles and responsibilities for integrated risk management of all levels of management and staff, including the Board; and provides tips to support and sustain implementation of integrated risk management.

Introduction

Fraser Health faces many challenges to meet the care needs of a growing and increasingly complex population. Increased risk is the price to pay for change and progress. Risks are presented on multiple fronts, demanding well-coordinated and integrated responses to minimize uncertainty, and maximize opportunity. To help meet these challenges, we need to ask: *Are we taking the right risks? Are we taking the right amount of risk? Do we have the right processes in place to manage these risks?*

Risk management refers to the processes used to manage risk. It is an expression of the likelihood and impact of future events that have potential to influence the achievement of desired outcomes or goals. Although the notion of risk management is not new, traditional methods are inadequate to meet today's challenges. We need to develop superior risk management skills and practices.

Traditional risk management tends to be reactive - the "fix" is often based on examination of the issue after the fact.¹ Risks tend to be compartmentalized to a specific issue or initiative. The cumulative or interactive impact of risks across the organization is not considered. The traditional approach manages risk in silos and does not address emerging risks and opportunities that often impact the entire organization.

By contrast, integrated risk management is proactive. It considers all risks (strategic and operational) that impact the entire organization, not just specific programs or services. It is a decision-making discipline that integrates risk management principles into organization performance to address variation in practice, and support achievement of organization goals. Integrated risk management is also about increasing awareness and accountability for managing risk. It extends risk management practice throughout the organization's structures, processes and culture.² It aligns risk management with planning and decision-making processes; and provides the Board, Management and stakeholders a better understanding of what is required to accomplish organization goals. It also ensures greater consistency in how risks are managed, and recognition that being risk averse can deprive us of opportunities to improve outcomes.

This framework is based on a review of best practices in public and private sector organizations, internationally. It was developed to provide a common understanding of risk, and to clarify how risks ought to be managed and by whom. The framework supports staff through the application of risk management techniques and learning. It applies to all levels of the organization, and to all types of risk.

Definition of Risk

Risk is defined as anything that, if it occurs, has potential to adversely impact achievement of objectives. Risk is unavoidable and present in virtually all situations. Risk is expressed in relation to a desired outcome or goal, and measured in terms of likelihood and impact.

Definition of Integrated Risk Management

Integrated risk management is an explicit, systematic and proactive approach to understand and manage risk from an enterprise-wide perspective. It integrates risk management into strategy setting and decision-making at all levels of the organization to identify risks and opportunities, and support achievement of organization goals. It fosters a culture that values innovation, responsible risk-taking and continuous improvement.

Benefits of Integrated Risk Management

Integrated risk management will allow Fraser Health to achieve the following benefits:

- *Optimized risk taking and responsible acceptance of risk* by promoting innovation and responsible risk taking while ensuring appropriate precautions are in place to protect people and assets, and maintain public trust.
- *Support for Executive and Board* through assurances that management has robust and reliable processes in place to identify, assess, manage and communicate risks.
- *Improved outcomes* through more informed decision-making by ensuring the inter-relationship of risks are understood and managed.

¹ Enterprise Risk Management: A Framework for the Calgary Health Region

² Report of the Auditor General of Canada to the House of Commons, April 2003

- *Strengthened accountability* by demonstrating Fraser Health's risk levels are understood and risk responses are balanced with the interests of patients, staff, partners and community.
- *Enhanced stewardship* by reporting on the organization's total risk allowing management to more effectively allocate and safeguard resources.

Guiding Principles

The framework is based upon the following guiding principles:

1. All forms of risk will be considered in decision-making.
2. The impact of uncertainty on decisions will be acknowledged and assessed.
3. Ownership and accountability for risk and risk management will be retained at the point of influence.
4. Risk tolerance levels will be established and monitored. Risks in excess of established tolerances will be identified and reported.
5. Best practices in integrated risk management will be adopted and advanced.
6. Compliance with policies and procedures will be monitored.
7. Existing risk management practices within Fraser Health will be leveraged.
8. All important risks and integrated risk management deficiencies will be documented and reported.
9. Risk management is mandatory, not optional.

Framing Our Approach

This framework does not seek to provide detailed technical advice on how to undertake integrated risk management. Rather, it provides a conceptual overview of the key components of the integrated risk management process. This is described below.

Internal Environment

Fraser Health's internal environment is comprised of many elements, including culture, values, management philosophy, style and organizational structure. The internal environment influences how strategies and objectives are established, and how risks are identified, assessed and managed. It also influences the degree to which risk management is embedded into core management practices. Key attributes to a strong risk culture include:

- *Leadership and strategy* - demonstrates ethics and values throughout the organization and communicates mission and objectives.
- *Accountability and reinforcement* - reveals the organization's ability to assign individual accountability while measuring and rewarding performance.
- *People and communication* - allows the organization to disclose its ability to share knowledge and information, and promote and develop employee confidence.
- *Risk management infrastructures* - the organization's ability to support the assessment and management of risk.

Objective Setting

Objectives must exist before risks to their achievement can be identified. Integrated risk management requires that staff at all levels of the organization understand Fraser Health's objectives as they relate to their sphere of influence. Integrated risk management also ensures objectives are consistent with the organization's risk appetite (the desire or tendency of an organization to take on risk).

Event Identification

Events that could impact achievement of objectives must be identified. This is the first step in the risk assessment process. This can be accomplished a number of ways such as: analysis of near misses, review of other healthcare organizations experiences, surveys, facilitated workshops, interviews, process flow analysis, checklists, or by asking a series of "what if" or "so what" questions. Events that have a negative consequence represent risks, while events that have a positive impact represent opportunities. Risks should be managed through the risk management process; whereas opportunities should be channeled into Fraser Health's strategy and objective setting processes.

Risk Assessment

Once risks are identified, they should be assessed in terms of likelihood (the possibility the risk will occur) and impact (the effect it will have on the achievement of strategies and objectives). Likelihood and impact should be assessed in terms of worst case scenario. The effects of multiple risks should also be considered. While the impact of a single risk may be minor, a sequence of risks may have a significant impact on the organization. The use of common likelihood and impact definitions will ensure a standardized approach to risk assessment across the organization.

This will also facilitate assessment of risk on an aggregate basis. Fraser Health's risk heat map (see Appendix 1) contains the criteria for assessing likelihood and impact.

Risk Response

The standard responses to risk are: *avoid* the risk altogether; *accept* the risk as is; *reduce* the risk by either reducing the impact or likelihood of the risk or *share* the risk. The risk response selected should be consistent with established risk tolerances, and the cost versus benefit of implementing the risk response. It is important to develop an integrated response to risks, as a combination of responses often provides an optimum result. Similarly, certain responses may address multiple risks. Thus, after considering individual risk responses, the aggregate effect of risk responses across the Fraser Health will be considered. This will provide a better understanding of the inter-relationship of risks, and identify opportunities for the pooling of risk response strategies.

Control Activity

Controls are the policies and procedures that guide an organization's response to risk. Control activities occur throughout the organization, at all levels and in all functions. Once a risk response is selected, existing control activities are considered to determine if they are adequate to support the selected course of action. Although some controls may relate solely to one area, there is often overlap and several control measures may be required to mitigate certain risks.

Information and Communication

Pertinent information is needed to identify, assess and appropriately respond to risks. Informing and communicating should occur in a safe environment where no blame exists. Communication should raise awareness across the organization about the importance and relevance of integrated risk management, support a common risk language, and provide clarity of roles and responsibilities with respect to risk management.

Monitoring and Reporting

Effectiveness of the organization's risk management efforts should be monitored. Areas of high risk should be subjected to independent review or audit on a regular basis. Management is expected to maintain adequate documentary evidence of risk information, mitigation efforts and outcomes.

Risk Categories

Grouping risks into common categories can provide an aggregate view of risks. By aggregating risks across programs and across the organization, we can gain a better understanding of the inter-relationships between risks. For example, while risks at the program level may be within acceptable risk tolerance levels, the combined risks of all programs may actually exceed the risk tolerances of Fraser Health as a whole. Grouping risks into common risk categories also allows management to consider the completeness of risk identification efforts. Fraser Health groups risks into the following three broad categories (see Appendix 2):

- **Health care delivery and support risk** - Risks related to the delivery of health care and include internal and external factors impacting on the clinical operations of Fraser Health.
- **Resource risk** - Risks related to the resources used by Fraser Health to accomplish its strategic objectives.
- **Compliance risk** - Risks originating from the requirement to comply with a regulatory framework, policies, directives or legal agreements.

Roles and Responsibilities for Integrated Risk Management

Effective risk management requires not only the processes to manage risk, but also the allocation of responsibility and authority for risk mitigation. Although risk management is everyone's responsibility, specific roles for integrated risk management and the responsibilities expected in each of these roles are set out below.

Fraser Health Board

The Board has governance responsibility to ensure mechanisms are in place to effectively monitor and manage risk and uncertainty in order to safeguard people and assets, and to maintain public trust. The Board is accountable to the BC Ministry of Health Services to safeguard the organization's resources through sound fiscal policies and

effective internal controls³. The Board reviews risk management policies and periodic reports, approves the overall risk tolerance for Fraser Health and ensures that statutory responsibilities and reporting requirements are met.

Executive Management

Executive management provides leadership and direction to promote a strong risk culture, and support successful implementation of integrated risk management. Executive management ensures consistent application of integrated risk management principles and practices throughout the organization, and that these practices are aligned with Fraser Health's risk tolerance levels and internal policies.

Director, Integrated Risk Management

The Director of Integrated Risk Management is responsible to develop, implement, evaluate and ensure sustainability of an appropriate risk management framework and infrastructure that encompasses all aspects of Fraser Health's operations, and that supports the strategic initiatives of the organization. The Director ensures clearly defined processes are in place for the ongoing identification, assessment and communication of all major types of risk, and oversees the development of policies, procedures and supporting mechanisms to respond to emergency risks in accordance with established risk tolerance levels.

Integrated Risk Management Portfolio

The Integrated Risk Management portfolio is responsible to support the implementation and ongoing sustainable capability of integrated risk management throughout Fraser Health. This includes development of a comprehensive strategy to incorporate this framework into all aspects of Fraser Health operations and practices. Specifically, the Integrated Risk Management portfolio will:

- Develop a corporate risk profile for Fraser Health.
- Raise awareness and understanding throughout Fraser Health of corporate philosophy, direction and expectations with respect to the management of risk.
- Build organization capacity by ensuring staff have the ability to apply integrated risk management principles and practices in their day-to-day work.
- Identify and recommend improvements to existing risk management processes.
- Ensure risk standards, measures and methodologies are consistently applied.
- Provide assurance that risk acceptance activities are conducted in a manner consistent with Fraser Health's risk tolerances.
- Provide guidance and support to Fraser Health on integrated risk management techniques and best practices.

Management Staff

Management at all levels shall promote understanding and application of the Integrated Risk Management Framework. Management will proactively identify, assess, manage and report on risks and controls associated with their areas of responsibility, and develop risk registers and strategies as per organization policy. Management shall establish risk management processes tailored to their areas with guidance from the Integrated Risk Management portfolio. Specifically, management will:

- Maintain responsibility for risks within their area, and for risk management decisions taken in the performance of day to day activities.
- Apply this framework to ensure all aspects of operational risks are appropriately identified, assessed and managed.
- Provide the Director of Integrated Risk Management with complete and accurate reports regarding the nature and extent of service area risks.

All Staff

All staff are responsible for developing the capacity to identify and report on potential risks within their scope of responsibility in accordance with this framework and establish risk management policies and processes for their area.

³ BC Health Authorities Act

Implementation

Fraser Health's implementation strategy is based on lessons learned by public and private sector organizations in Canada and elsewhere. Embedding integrated risk management principles and processes into day-to-day practice is the key. The following elements are considered essential for success^{4 5}:

Plan to adapt and learn

It is important to develop and refine the implementation processes through experimentation, organizational learning and engagement of leadership and staff. Our review found a preference for an experimental approach to implementation - most organizations began with a pilot program and made adjustments over time based on experience and feedback. It is also important to focus on content over theory, particularly in the early stages of implementation.

Provide leadership support

Leadership support is essential. Senior management must fully support the development and implementation of an integrated risk management framework, and their respective roles. Senior management must demonstrate support by committing appropriate resources and communicating appropriate messages throughout the organization. Practical examples of leadership support include:

- Adequately resourcing the implementation and practice of risk management.
- Making strategic changes in organizational structure to facilitate discussions.
- Appointing risk management champions to key leadership positions.
- Introducing risk management committees which are accountable to the Executive Management Committee.
- Establishing performance agreements.

A common barrier to implementation is not using, or perceived not to be using, risk information in decision-making. It is important to create an environment where people are encouraged to identify risks and possible solutions. Saying thank you for raising an issue and a viable solution, even if it costs money is a powerful message to staff. There is no role for shooting the messenger. Effective leadership means hands-on leadership throughout the organization in terms of both implementing integrated risk management practices, and managing risks.

Ensure adequate resources and the right mix of skills at the right levels

A central coordinating function for education, quality control and risk management is important for successful implementation of integrated risk management. Champions are required throughout the organization on several levels, including policy, technical, operational, unit and corporate champions. All successful implementers resourced risk management expertise to guide the process and the people. These resources must be accessible and credible and have a diverse skill set, including knowledge of risk management and of the organization, excellent facilitation, analytical and communicating skills and judgment. Common risk management language and tools must be delivered in a consistent, ongoing educational program. Integrated risk management is not a one time activity - it requires a continuous approach. There must be a process for regularly updating risk assessments, and the strategies for mitigating risk are crucial.

Assign Responsibility for Implementation

Assigned responsibility for implementing integrated risk management should be clearly established. Organizations which did not assign clear responsibility for implementation realize little benefit.

Make it real

Risk management must be pragmatic and relevant to staff and day-to-day operations. Ongoing communication is essential to reinforce the key benefits and goals of integrated risk management is to help staff and the organization meet established objectives. Practical suggestions to make risk management pragmatic and valued are:

- Education - provide managers and staff with the same tools and training; transition rapidly from training to doing; use customized, scenario based exercises; hold training sessions to avoid a "headquarters" mentality.

⁴ Risk Management Moving the Framework to Implementation, Conference Board of Canada, February 2004

⁵ Report of the Auditor General of Canada to the House of Commons, April 2003

- Communicate the value - ensure managers understand the value of using real life examples; identify meaningful, realistic steps managers can take to mitigate their risk; ensure it is relevant to daily operations; provide risk management guidance and support.
- Simplify - keep it simple! If it becomes too complex no one will understand or use it. Give front line managers the building tools and templates. Use a common language and common templates.

Integrate risk management into daily management practice

Embedding risk management into existing planning and decision-making processes is essential for success. It is crucial to establish a common process whereby risk identification and assessment, conducted within individual departments or service areas, comes to a collective table for assistance, validation, acceptance and implementation. However, as previously stated, leadership must be prepared to use the risk data in decision-making.

Engage stakeholders

Communicating and engaging stakeholders early in the process is important. Equally important is who you engage, and how the engagement occurs. Educating and involving physicians, frontline staff and employees in the organization's risk management practices provides an opportunity for all to understand the benefits and tradeoffs.

Make it transparent

"Make decisions with your eyes wide open." "What I do not know can hurt me."⁶ These quotes reflect an underlying reality: implementing integrated risk management can be met with political resistance; but will ultimately better serve the goals and concerns of the organization when it is done well. Transparency can be defined as carefully documented, consistently used and adequately shared information.

Establish risk tolerances

A forum to discuss risks, and reach a shared understanding of risk tolerances, will greatly benefit the implementation of integrated risk management. Setting tolerance levels is a dynamic process that often involves senior leaders giving ongoing guidance vs. establishing clearly delineated thresholds. To help operational areas rate risks, simple scales to help establish likelihood and impact of risk are beneficial. Setting risk tolerance is a normal part of management and must be both qualitative and quantitative. While there is a tendency to want absolute clarity, this is often difficult in the face of the complex health care environment.

Conclusion

Integrated risk management in the health care sector is an evolving art. One size does not fit all. Fraser Health's implementation strategy will be managed over time and will include fostering a culture of learning, providing strong leadership and communicating throughout the organization. Risk management is increasingly seen as an integral component to good business and a key management responsibility. Effective cross-organizational risk management practices can provide a greater certainty that Fraser Health has done an effective job to reduce surprise and better manage into the future. As Fraser Health prepares to operate in an uncertain world, often with limited resources and an increased demand for accountability, the importance of effective risk identification, mitigation and communication has never been greater.

⁶ Risk Management Moving the Framework to Implementation, Conference Board of Canada, February 2004

Appendix 1: Risk Heat Map

		Impact					
		1 Insignificant	2 Minor	3 Moderate	4 Major	5 Catastrophic	
Likelihood	Very high probability (> 90%) the risk will occur in the next 12 months. It is expected to occur.	5 Almost Certain	Moderate	Moderate	High	Extreme	Extreme
	High probability (51-90%) the risk will occur in the next 12 months. It will occur in most circumstances.	4 Likely	Low	Moderate	High	High	Extreme
	Moderate probability (11-50%) the risk will occur in the next 12 months. It might occur at some time.	3 Possible	Low	Moderate	Moderate	High	High
	Low probability (1-10%) the risk will occur in the next 12 months	2 Unlikely	Low	Low	Moderate	Moderate	High
	Very low probability (<1%) the risk will occur in the next 12 months. It may occur only in exceptional circumstances.	1 Rare	Low	Low	Low	Moderate	Moderate
<p>Risk Heat Map</p>  <p>fraserhealth Better health. Best in health care. Integrated Risk Management</p>		1 Insignificant	2 Minor	3 Moderate	4 Major	5 Catastrophic	
		Minimal impact on achievement of objective. Outcomes remain within stated risk tolerances. Consequences dealt with by routine operations. Negligible monetary loss. No community response. No media interest.	Minor impact on objective. Outcomes remain with stated risk tolerances. Consequences threaten efficiency or effectiveness of some services. Will be dealt with internally. Monetary loss managed within operating or project budget. Isolated community complaints. Local short-term media interest.	Moderate impact on objective. Outcomes may or may not remain within risk tolerances. Consequences would require significant review or changed ways of operating. Monetary loss may require suspension of some services. Moderate environmental implications. Some community complaints. Local long-term media interest.	Major impact on objective. FH no longer meets external standards. Consequences threaten continued effective provision of services. Top-level management intervention required. Monetary loss would require cancellation of some services. High environmental implications. Negative community complaints. Major loss of credibility. National short-term media interest.	Significant impact on objective. FH no longer meets external standards. Consequences threaten provision of key services causing major problems for patients/clients and FH. Monetary loss would have extreme consequences for FH. Far reaching environmental implications. Catastrophic loss of reputation. Parliamentary questions. National long-term media interest.	
		Response					
Extreme	Inform Executive & Board. Immediate action required						
High	Inform Executive & report to Board as appropriate. Senior Management involvement/attention is essential to manage risk. Priority areas for audit						
Moderate	Ongoing mitigation & monitoring. Inform relevant Senior Management. Potential cumulative impact of risk should be assessed.						
Low	Accept, but monitor risks. Manage by routine procedures. Assess costs of RM activities. Where costs outweigh the benefits, consider redeploying RM resources to other priorities						

Appendix 2: Risk Categories



Risk Categories

HEALTH CARE DELIVERY AND SUPPORT: "DOING"

Risks that may relate to the delivery of health care that include internal and external factors impacting on the core operations of the department.

Quality Care & Patient Safety

Risk that the delivery of quality care is compromised due to inappropriate assessments, care planning and treatment that may result in an adverse outcome to the patient.

Corporate Governance and Strategic Development

Risk that the organization structure, decision making processes, governance and oversight, internal culture and communication do not support the strategic direction of Fraser Health.

Operations & Business Support

Risk that business operations do not efficiently and effectively support the needs of Fraser Health and its staff and patients.

Reputation & Public Image

Risk that the Fraser Health public image is negatively affected by issues related to patient satisfaction, media exposure and government relationships.

RESOURCE RISK: "ENABLING"

Risks that relate to the resources used by the organization to accomplish its objectives.

Human Resources & Staff Relations

Risk associated with a lack of sufficiently skilled, qualified, motivated and committed staff to ensure delivery of quality care and sound healthcare management and administration.

Financial

Risk that Fraser Health lacks sufficient capital and operating funds to provide the desired level of programs and services to the population it serves. The risk of ineffective financial management and reporting.

Information, Systems & Technology

Risk that the use of information, systems, and technology are not supporting current and future needs of Fraser Health; is not operating as intended and/or is compromising the integrity and reliability of data.

Physical Assets

Risk that relates to the acquisition, maintenance and disposal of Fraser Health physical assets, including buildings, equipment and medical devices.

COMPLIANCE RISK: "MEETING REGULATORY REQUIREMENTS"

Risks that originate from the requirement to comply with a regulatory framework, policies, directives or legal agreements.

Environment, Health & Safety

Risk that Fraser Health does not provide a safe working environment for its patients, staff and the public. The risk of not being an environmentally friendly organization.

Legal & Regulatory

Risk that Fraser Health is exposed to undue legal liability as a result of non-compliance to legislation, contractual agreements and regulatory standards.

Policies

Risk of non-compliance with established direction and guidance as provided in policies, guidelines and directives - both internal and external to Fraser Health

Standards

Risk of non-compliance with established accreditation standards and those requirements of the applicable professional regulatory bodies and standards committees.