EUROGATEWAY PUBLICATIONS
Number 002 (2012 – October)

AUXILIUM EXPATBIZ SERVICES

Auxilium Expatbiz Services is an alliance of experts delivering services and products to companies and individuals from the US and other countries with business or other economic interests in Central Europe. This edition of our »**EuroGateway Publications**« is an abstract of a Presentation held at the **ISO 31000 Conference** in Paris on May 21st 2012! **Together we create value across cultures!**

Human Factors, Management and Risk in ISO 31000

Discussing the subject »Human Factors« would allow for a book in its own right for a comprehensive holistic coverage. Here we will address the core items management should take into account to reduce the effects of uncertainties on the objectives of the company and thereby avoid any liability for organizational default and to achieve higher profitability.

To say »addressing the human factor is at the core of risk management« is like saying »human factors are at the core of business or at the core of life«! Even so it is essential to **never forget the human factor:** without people you are going nowhere!

What do ISO 31000:2009 (E) and ISO 31010:2009-11 say about human factors?

Aside from some indirect references, there is only one explicit reference: »Risk management takes human factors into account« [section 3 (h) of ISO 31000]. In the core process of risk management outlined in sections 5.4 to 5.7 of ISO 31000, the focus is on process-related human factors alone. Reference to risk related human factors is made in the subsections on establishing the external and internal context. However, one needs to keep in mind that risk [management] is (just) a management tool and that the most significant task for management is the guidance of employees. It is thus evident that management or leadership success depends on human factors and:

- Addressing human factors is at the core of management and
- Addressing human factors is at the core of risk and
- Analysis of human factors is vital for risk assessment!

It is the core process that should be an integral part of management, embedded in the culture and company practices, and tailored to the business processes of the organization – in short: implemented and integrated throughout your company. Therefore, it is insufficient to follow the guidelines to the letter. Human Factors are a key to profitability and have to be attended to in all aspects of the management triangle (planning - organizing – supervising or **»POS«**).

Human Factors Management (»HFM«) is at the core of life

Critical industries as diverse as nuclear power plants, aviation, space exploration and medicine need a complex HFM. There are various approaches outside ISO 31000 available. The FAA issued order 9550.8 (its human factors policy) stating that »human factors shall be systematically integrated into … all FAA elements and activities associated with … system operations«.

Just like risk management, HFM has to be tailored and aligned with an organization’s external and internal context. While complexity requires Human Factors Analysis and Classification Systems and/or Human Reliability Analysis, for most (notably smaller) entities a simple systemic approach is a good start for Risk Management.

The Efficiency-Thoroughness Trade-Off-Principle (»ETTO«)

While simplifying will expedite Risk Management at the onset the implications of Human Factors make it essential to know about the Efficiency-Thoroughness Trade-Off-Principle (»ETTO«) which enables us to better understand »what other people do or may do« – how they act. The question to ask or to keep in mind in risk assessment is **»How will the process owner etto?**« Integrating this question in the implementation of the Risk Management core process aligned with ISO 31000 combines efficiency with sustainability.

Implementing the core process as laid out in ISO 31000 keeping it as simple as reasonable

Implementing the core process laid out in ISO 31000 (recorded assessment, treatment, monitoring and review of risk) and implementing a risk inventory are vital. This holds true for large and small entities (as soon as they outgrow the direct control of all employees by the owner). Keep it simple whenever possible and use customized checklists when suitable. For Risk Classification three by three categories will be a good start:

Likelihood	Impact	Treatment Complexity	Risk Value
high probability, likelihood 50 % or more (once every two years)	critical, more than 50 % of the average profit of the last 3 years **or** more than 50 % of equity	challenging and difficult	**3**
medium probability, likelihood less than 50% but more than 5 % (once every 20 years)	explicit, more than 5 % but less than 50 % of the average profit of the last three years **and** below 50% of equity	possible when conducted properly	**2**
low probability, likelihood less than 5 %	Small, less than 5 % of the average profit of the last three years	Easy to handle	**1**

The process implemented should include standard procedures for instant reporting as soon as multiplying the three category's Risk Values for an identified risk results in a figure exceeding 3 **or** if the value of Risk Impact is 2 or 3 with mandatory (supervisory) board reporting if risk impact is 3 **or** the result of multiplication exceeds 8! It might be helpful to add an Internal Controls Maturity Self-Assessment Tool (»CMSAT«) as an indicator for the reliability of internal controls. Contact us for a customized CMSAT at dr.herdmann@expatbiz.eu!

We believe it is mandatory to **align Risk Management with Internal Audit**. If this is achieved, both Risk Management and Internal Audit will be operating on a higher level of maturity – the latter based on a qualified approach instead of a mere quantitative approach. POS will be superimposed and thereby supported by improved information and estimation, reduced uncertainties, and less effects on the objectives of the company. With a tighter net of interdependent contributions to the decision making processes there is a higher probability of achievement, less risk, and thus higher profitability.

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