

## **Audio Interview on the paper Sight Seeing: New audit approach helps assess risk throughout an organization**

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Hello and welcome to another installment of Author Audio, brought to you by Quality Progress magazine and ASQ. Joining me today is the co-author of our cover story for the September 2011 edition of the magazine, Ron Kenett. Ron is the chairman and CEO of global consulting firm KPA Limited, a research professor at the University of Torino in Italy and international professor associate in the Department of Finance and Risk Engineering at the Polytechnic Institute of New York University. He's also the author of several books, including Operational Risk Management, and he's here today to talk with us about a better way to combat risk in any organization. Ron, thanks for joining us.

1. For those who may need a little educating on the subject, can you give us a quick background on risk management and why it's so crucial these days?

*Risk management can be reactive or proactive. **Proactive** risk management involves: Risk **Assessment** (Identification, Analysis, Evaluation), Risk **Control** or Risk **Mitigation** (Reduction, Acceptance) and Risk **Review**. Reactive risk management involves effective escalation and recall procedures. No planned risk management is too high a risk.*

2. It seems we get examples of organizations not having a firm grasp of the risky areas of their business every day. What are some of the more prominent recent instances, and is it possible that better risk management would have helped them avoid these situations?

*This is a tricky question. We usually do not get full exposure to the extent of risk management in organizations like Toyota, British Petroleum or, going back in time Pan Am and TWA. Regulated industries such as healthcare provides however striking examples. The successful IHI challenge to reduce, by June 14<sup>th</sup> 2006, the number of deaths in US hospitals due to medication errors, surgical errors or missed diagnoses by 100,000 is probably the most striking example.*

3. You look at different industries, and obviously a healthcare organization isn't going to approach this the same way as, say, a financial institution. But are there certain tips or guidelines every organization should follow, regardless of the industry? And how the approaches differ from one industry to the next?

*Financial institutions are rewarded for applying advanced risk management that meet the Basel III requirements by lower capital requirements. The pharmaceutical industry is encouraged to comply with the ICH Q9 guidelines on risk management, and are accordingly audited by regulators such as the FDA. The main difference between industries is probably in the type of data used in risk*

*management. It can range from ongoing process related data to qualitative, expert based opinions.*

4. In your article, you advocate a very proactive, hands-on, data-driven approach to managing risk in an organization. How is this different than the typical strategy you've seen?

*The article refers to a methodology building on the risk based audits conducted by the FDA. The approach we describe permits pharmaceutical companies to be indeed proactive and generate information that can be crucial in initiating risk mitigation strategies used to ensure compliance and excellence in line with Quality by Design objectives.*

5. Are you seeing more examples of this being used by organizations in real-world settings? Are you surprised it wasn't used sooner considering the emphasis most quality-based organizations place on measures, such as the risk score you talk about in your article?

*Quality is evolving as a discipline. In the mid 1980s I gave workshops on Deming principles which were revolutionary in scope. Nowadays they appear as basic common sense. The trilogy of Juran was designed to generate improvements at a revolutionary pace. The wide spread deployment of six sigma and lean sigma have made us better at improvements of all types and this has become standard practice. Risk management has helped the Quality discipline focus on new aspects and is seen by many as another step in quality management. The risk scores we discuss in the article provide an essential measurement tool to turn risk management into an effective and efficient discipline.*

6. Just as a closing thought, what would your advice be to organizations considering the approach you present in this article? How would you sell them on implementing it for their day-to-day operations?

*Like in every such initiative, the first step is to identify the right champions and adequately support them with time and responsibilities. Risk management is a top down discipline that requires management support but, I guess, there is nothing new in this message...*