Risk Management and Mitigation through strategic FM

Based on a White Paper
by Anders Søborg (ISS), Reinhard P. Poglitsch (ISS), Prof. Dr. Alexander Redlein (Technical University of Vienna), Dr. Barbara Redlein (PwC)
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Today’s Presentation

Moderator:
Josh Amos, IFMA Components Liaison

Presentation Title:
Risk Management and Mitigation through strategic FM

Based on a White Paper
by Anders Søborg (ISS), Reinhard P. Poglitsch (ISS), Prof. Dr. Alexander Redlein (Technical University of Vienna), Dr. Barbara Redlein (PwC)

Presenter(s): Anders Søborg, Reinhard P. Poglitsch
Learning Objectives

1. Risk Management awareness has been rising due to legal initiatives and economic development.

2. FM plays a vital role in organizations’ supply chains and processes and represents a significant share of companies expenditures and assets.

3. Efficient outsourcing of facility services and a professional Risk Management and ICS implementation can substantially decrease company risks.
Anders Søborg

- Since 2008 Anders has been working within the service industry with the focus on risk management through the outsourcing lifecycle.
- Since 2011 Anders has supported ISS and their clients in respect to risk management within Facility Service Management and outsourcing.
- Anders holds an Master of Science in Risk Management and is a Board Member of the Danish Risk Management Association.
- ISS has the vision to be the greatest service organisation in the world and developed the answer to the global Facility Management market: Integrated Facility Services (IFS). With the integration of all secondary services and The Power of the Human Touch ISS supports individuals and businesses to perform better.
Reinhard Poglitsch

- Through his 25 years with ISS Reinhard has been exposed to most aspects of Facility Service Management and Outsourcing.
- Starting his career in ISS Austria where he worked with Security Services Reinhard was involved in the roll out of the Integrated Facility Services model, which is still a key focal point of the ISS organization.
- Reinhard is actively involved in the Industry both as manager and speaker and is the Vice-President of the IFMA Austria Chapter.
- Reinhard holds an Executive MBA from Henley Reading Business School, United Kingdom.
- ISS has the vision to be the greatest service organisation in the world and developed the answer to the global Facility Management market: Integrated Facility Services (IFS). With the integration of all secondary services and The Power of the Human Touch ISS supports individuals and businesses to perform better.
Overview Risk Management and Relation to Facility Management
Risk Management – Why and how?
The legal and economic surrounding require a professional Risk Management.

- Rising importance of risk management as a result of legal initiatives (SOX & 8th EU Directive) and economic development:
  - Companies of public interest must introduce an Audit Committee to monitor internal risk management and an internal control system.
  - Inclusion of the existence of a risk management and internal control system in the financial reporting.
  - Statement of detailed information on RM and ICS in the financial status report.

SOX (Sarbanes–Oxley Act of 2002)*:
- A US federal law that set new or enhanced standards for all US public company boards, management and public accounting firms
- Top management must individually certify the accuracy of financial information
- Penalties for fraudulent financial activity are much more severe
- Increased oversight role of boards of directors and the independence of the outside auditors who review the accuracy of corporate financial statements

* Source: www.wikipedia.org
Risk Management – Why and how?

External reference tools are supportive in the implementation process in terms of resource savings.

- Summary of the influencers and forces on company's risk management:
  - External forces:
    - § Legal initiatives
    - € Economic development
  - Internal implementation:
    - Implementation risk management system
    - Creation of operational and organisational structures (incl. FM)
    - Development internal control system (ICS)
    - Definition of roles and responsibilities
  - External reference tools:
    - Reference processes
    - Control matrices
    - Risk maps
    - Reference risks

- By using existing know-how of external reference tools, cost and time effort can be reduced in the implementation phase.

- Contribution to risk management / mitigation through optimised Facility Services outsourcing… Why is that?….
Risk Management – Relevance of FM?

The buildings, installations and facilities to which FM is relevant represent important company assets.

- **Strategic risks*** (company wide level)
- **Operative risks** (within operational business)

### FM share of company assets**
- FM
- FM / Other
- Other

- 25 – 50%

### Applied technologies and implemented processes

- Material (financial) effect on the financial statement of a company

### FM share of company expenditure**

- FM
- FM / Other
- Other

- 10 – 19%

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* Related to the strategic orientation of the company.
** Source: IFMA in Managing and Mitigating risk within Strategic Facility Management, Whitepaper
Risk Management – Relevance of FM?

FM plays a vital role in company’s supply chains, which have high risk impacts.

- Supply chain risks are often the consequence of procurement cost savings.
- Supply chain disruptions have an immediate effect on Shareholder Value:

![Graph: How Supply Chain Disruptions Hurt Shareholder Value]

Disruptions affect stock price even before the announcement. Average drop in shareholder returns of approximately 7.0%.

Stock prices do not recover for months after the announcement.

What is Risk and Risk Management?

Even though the word „risk“ is commonly used, the definition of risk is not always clear.

Risk = anything that may impede an organisation from achieving its strategic objectives.

3 perspectives on risks:

- **Risk as hazard**: Something bad will happen
- **Risk as opportunity**: Something good will not happen
- **Risk as uncertainty**: Potential that actual results do not equal planned results

Enterprise risk management is …

- … a process, effected by an entity’s board of directors, management and other personnel
- … applied in strategy setting and across the enterprise
- … designed to identify potential events that may affect the entity and
- … manage risks to provide reasonable assurance regarding the achievement of objectives.

Source: Prof. Alexander Redlein, Risk Management within FM
## Internal Control System – Why?
ICS helps preventing, minimising and discovering errors and irregularities in order to identify measures.

| Localization of risks within business processes and procedures and Preparation of measures in case of risk occurrence |
| Compliance with laws and regulations<br>Ensuring reliability and completeness of accounting |
| Achieving business objectives by effective and efficient management<br>Protection of business assets |
| Timely and reliable financial reporting |
| Preventing and minimising errors |
Implementation Risk Management & Internal Control System
Risk Management Implementation 1/2

First step is the identification of risks and opportunities followed by a risk evaluation.

1. Decision of **risk appetite** by top management.

2. Identification of **risks and opportunities** in a **risk map**.

**Influence of FM:**

„Make or Buy“

Security, Maintenance, Protection*

* see Example 1 on slide 18f.
3. Evaluation of opportunities and risks based on their impact of damage and probability of occurrence.

   - Significant risks
   - Risks that should be monitored
   - Risks to be observed

5. Follow up via control activities
   - Policies and procedures that help ensure that the risk responses are carried out (e.g. CFO received a weekly report of all critical fields, which were changed in the supplier master data (e.g. bank data, name)
ICS Implementation – Process & Tools

The process development is the most important step within the implementation process, based on the SOX model.

1. Identification of material financial accounting records in P&L (higher 5%)
   - incl. FM (10-19%)

2. Defining and designing company processes
   - Risk workshops
   - Risk checklists
   - Brainstorming
   - Interviewing experts
   - Process descriptions
   - Operating instructions
   - Reference processes

3. Qualification
   - Analysis of
     - Potential risk
     - Risk Mgmnt methods
     - Control activities

4. Quantification
   - Risk evaluation and risk classification into critical and non-critical risks
   - Potential update of processes and procedures
   - Risk portfolio:
     - Impact of damage
     - Occurrence prob.

5. Definition of adequate Risk Management measures
Options and Measures to deal with Risks

In a nutshell...

General options to deal with risk:

- **Avoid**
  - Retain from doing

- **Minimise**
  - Internal measures, process improvement

- **Share**
  - Transfer the risk (e.g. outsourcing FS, insurance cont.)

- **Accept**
  - Consciously bearing the risk

Possible measures:

- Implement measures to mitigate the risk (e.g. ICS, risk avoidance plans) and to handle the risk in case of occurrence
- Create organisational structure that enables communication on risks / chances
- Define “risk owners” that are responsible for certain risks and opportunities
- Document and report existing risks (implement escalation procedures)
- Discuss how changes (new products, technology etc.) affect the company
- Ensure that policies, procedures and controls are in place that identify weaknesses
- Implement authorization concepts (sign off for purchase requests)

Source: Prof. Alexander Redlein, Risk Management within FM
Example Processes for ICS Implementation related to FM

1. Preparation of a risk and control matrix for a FM process
2. Implementation of ICS activities in an existing FM process
Example 1: Preparation of a risk and control matrix for the process „Inspection and maintenance of facilities and installations“

Results from: Vienna University of Technology

Scope:
- Planning and execution activities of inspection and maintenance of facilities and installations
- NO specific activities in detail

Objectives:
- Analysing the current conditional state of facilities and installations
- Analysing potential measures to maintain or improve the current state through maintenance measures
Example 1: Preparation of a Risk and Control Matrix for the Process „Inspection and Maintenance of Facilities and Installations“

Risk and control matrix

<table>
<thead>
<tr>
<th>Activity</th>
<th>Risk or risks</th>
<th>Risk management/Control activity(ies)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tactical level</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Analyze available information (evaluation, objectives, costs) and collect missing data</td>
<td>• Undiscovered objects, lack of information</td>
<td>Periodic inspection of relevant facilities and installations, updating documentation</td>
</tr>
<tr>
<td>2. Define maintenance strategy and required infrastructure availability</td>
<td>• False assumption(s) with regard to the necessary availability/the risk of infrastructure failure</td>
<td>Carrying out periodic review of the requirements of the core business and take practical experience into consideration</td>
</tr>
<tr>
<td>Level of operative planning</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Update list of relevant objects</td>
<td>• Undiscovered objects</td>
<td>Periodic inspection of relevant facilities and installations, updating documentation</td>
</tr>
<tr>
<td>4. Define/Update activities per object</td>
<td>• Failure to perform timely maintenance on facilities and installations (including necessary procurements)</td>
<td>Orientation of maintenance/inspection intervals to the lifecycle data, relevant standards and the practical experience of experts, taking required time for procurement into consideration</td>
</tr>
<tr>
<td>5. Define maintenance/inspection intervals</td>
<td>• Maintenance intervals too frequent or too seldom</td>
<td>Verify standards and documentation</td>
</tr>
<tr>
<td>6. Perform economic efficiency analysis and plausibility check</td>
<td>• Verifying the check is not carried out by various individuals</td>
<td>Verify allocation responsibilities</td>
</tr>
<tr>
<td>7. Create maintenance/inspection schedule</td>
<td>Specific requirements are not taken into consideration, e.g. due to the location of facilities or installations</td>
<td>Consideration of specific requirements during the cost-effectiveness study</td>
</tr>
<tr>
<td>Operative level</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Plan execution</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9a. Use internal resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9b. Procure service(s) *</td>
<td>• Procurement risks</td>
<td></td>
</tr>
<tr>
<td>10. Procure material *</td>
<td>• Procurement risks</td>
<td></td>
</tr>
<tr>
<td>11. Internal demands and...</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Description of process steps  → Activity
„Defining maintenance/inspection intervals“

Identification of potential risks  → Risk or risks (e.g. as input for risk-matrix)
„Maintenance intervals too frequent or too seldom“

Definition of measures  → Risk management / Control activity(ies)
„Verify standards and documentation“

ICS in process „Carry out Technical Maintenance“

1. Carry out productivity planning
   - Process step: Carry out productivity planning
   - Risk: Failure due to lack of/poor maintenance
   - Control activity: Maintenance schedule, CAFM supp?

2. Internal control, Perform approval
   - Process step: Internal control, Perform approval
   - Risk: No accurate documentation of the activities performed
   - Control activity: The work order is created in the CAFM tool and defines exactly which activity is to be performed

3. Carry out monitoring activities for measuring equipment
   - Process step: Carry out monitoring activities for measuring equipment
   - Risk: Quality statements flawed and not understandable
   - Control activity: Monitoring measuring equipment managed in CAFM tool
Conclusion

Increased awareness on Risk Management necessity as a result of legal and economic pressure.

The implementation of Risk Management can be split into 3 basic steps and is facilitated via the introduction of an Internal Control System (ICS).

Facility Management plays a vital role in each of the steps as it
- … represents a high share of companies’ assets & expenditures.
- … plays a vital role in organizations’ supply chains & processes.

➔ Ultimately efficient FM and Outsourcing of Facility Services can substantially contribute to Risk Mitigation.
Q&A
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<table>
<thead>
<tr>
<th>Date/Time</th>
<th>Event</th>
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<tbody>
<tr>
<td>09/16/2015</td>
<td><strong>FMCC Webinar: &quot;Risk Management and Mitigation through Strategic Facility Management&quot;</strong>&lt;br&gt;To become a strategic and “seemless” partner for their client’s organizations, facility management (FM) operators need to develop...</td>
</tr>
<tr>
<td>10/01/2015</td>
<td><strong>FMCC Webinar: &quot;Managing Human Error: The Leading Cause Behind Workplace Incidents&quot;</strong>&lt;br&gt;This session will focus on demonstrating how personality traits such as resistance, irritability and distractibility are linked to...</td>
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<tr>
<td>10/07/2015 - 10/09/2015</td>
<td><strong>IFMA’s World Workplace 2015</strong>&lt;br&gt;<strong>Colorado Convention Center, Denver CO</strong>&lt;br&gt;IFMA’s World Workplace is a hands-on, interactive learning and networking event for professionals who support all aspects of the work environment.</td>
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