

How to Use This Manual

The focus of this book is on practical management, specifically, the management of risks by public sector organizations. Within these pages, the guiding principle of content will be to help readers understand and apply risk management to their particular work circumstances. To that end, conceptual discussions will tend to be brief and the emphasis will be on observing concepts in action and, more importantly, providing readers with guidance in putting to use the concepts and practices discussed in the book.

While philosophy most decidedly is not a subject for treatment in this book, it is nevertheless important that readers understand the underlying premises that drive this book. These premises, or philosophical underpinnings, might be best summarized as follows:

- **Risk management is the management of all organization risks.** Most scholars and practitioners in the field today would agree that risk management is moving beyond its insurance management roots and becoming more of a general management function. This book will address the particular aspects of traditional risk management in great detail, but the newer and broader interpretation of risk management will emerge as the overarching framework of the book.
- **A fundamental purpose of public institutions is risk management.** Although this statement could prompt a vigorous debate among political philosophers, it is practically true that in modern democratic societies, public institutions exist — at a fundamental level — to address risks that confront society (e.g., defense from outside attack, control of common threats to health, welfare and safety, maintenance of public order). The implications of this statement lie mainly in the observation that risk management is not a peripheral or narrow technical function, but is central to the overall purposes of government.
- **Distinctions exist between public and private sector risks.** It could be argued that many distinctions made between the public and private sector are arbitrary; indeed, the past 15 years have forced governments in many developed nations to reconsider what is properly the provenance of government and what might better be undertaken by private or quasi-private institutions. However, this book will demonstrate that, while many risks confronted

by public institutions are indistinguishable from those faced by private organizations, the nature of the exposure to risk exhibits fundamental differences. A significant number of public sector risks simply are different from private sector risks, and the differentiating elements in fact limit the private sector's ability to manage them.

- **The basic unit of analysis is the contract, the obligations, the agreement, and the commitment.** Certain traditions in the study of politics and public institutions rely on an analysis of group and intergroup dynamics and the relationship of government to the citizenry. While not dismissing the appropriateness of this framework for many purposes, it is not one particularly well suited for understanding risk management in public sector institutions. The challenge of developing a comprehensive program for managing all (or nearly all) organizational risks is a tall and complex order, and the only way to systematize such a program is to break the exposure to risk into its smallest possible units. The concept and practice of risk management that are developed in this book arise from the idea that public institutions are collections of contracts, obligations, agreements, and commitments made by the managers (or elected representatives) and the various stakeholders.
- **Risk management is more art than science.** There is a strong temptation to view risk management as a management function driven by purely economics/finance/statistics-based modeling. While this has an element of truth to it, placing risk management in the domain of both general management and the public sector means that risk management policy and practice must be informed by a richer and more complicated understanding of how people and organizations deal with risk. Organizational risk assessment, for instance, will be demonstrated to have more in common with, say, a historian investigating the reasons for the outbreak of World War I than it has in common with an analysis of the statistical incidence of mutations in tree frogs. An understanding of statistics is essential for risk managers, but arguably judgment, an ability to synthesize and reason, insight, intuition, an appreciation of human behavior, and effective communication skills probably are better predictors to effectiveness than is a narrower technical competence in statistical-based modeling.

Since the purpose of this book is to translate ideas into action, each chapter will follow a relatively standardized structure. First, readers will be introduced to concepts and principles that are essential to understanding the particular subject in hand.

Second, these concepts and principles will be demonstrated in the context of a public organization. Third, each chapter will conclude with a suitable presentation and commentary

enabling readers to extend their understanding of the chapter's main themes, in other words, to "learn more about it."