

# Proactively Managing Risk

## The New “Waste”

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**A**n unforeseen risk causes a problem to hit you out of the blue. Someone is assigned to get to the bottom of the problem and solve it—quickly! Everyone looks for what, or who, is to blame for the latest predicament. You’re in firefighting mode.

There are many ways to become aware of risks and their causes. Waiting until a problem arises is a very reactive solution. The better way is to take a more proactive approach.

A continuous process improvement (CPI) tool called value stream mapping (VSM) has been used effectively over the last decade to help organizations visualize their key processes so as to expose problems of waste and to plan improvements. The CPI approach follows through on those improvement efforts and repeats the process for still greater gains. Traditional CPI is focused on removing waste or non-value-added steps. But with just one more pass added to the standard CPI methodology, VSM can be used to also identify and reduce risks in all key processes. This combination of VSM enables organizations to leverage the continuous improvement initiatives that are likely already part of their ongoing transformation effort.

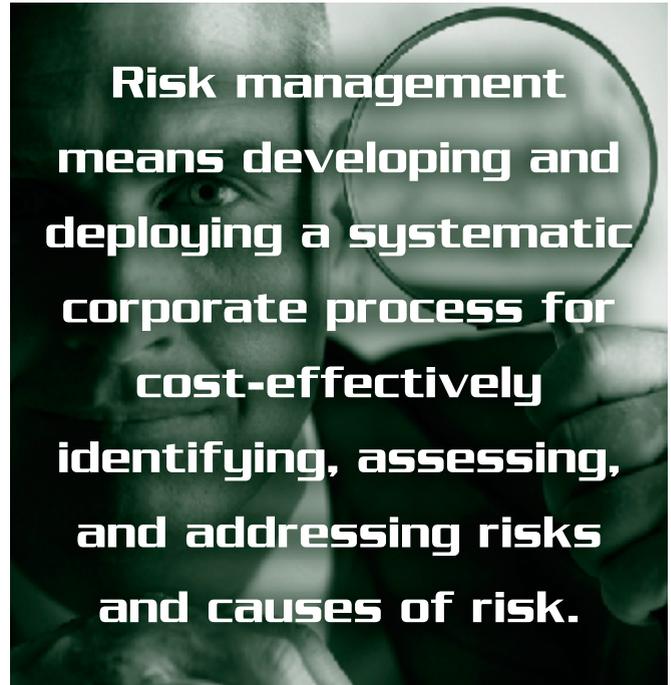
### Risks as Threats

We are all exposed to risks daily—at work and in our private lives—and often manage them without even thinking about it. Organizations are challenged to maintain operations during disruptions and to avoid operational failures. Whether by natural disaster, terrorist action, or simple employee mistakes, organizations need to identify risks and mitigate losses. We need to ensure that we think about risk actively *and* proactively in the way we deliver value to customers.

Risks can be opportunities as well as threats, but this article will focus mainly on risks as threats. Risk management means developing and deploying a systematic cor-

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porate process for cost-effectively identifying, assessing, and addressing risks and causes of risk.

Risks can take various forms: financial risks, risks to the public or key stakeholders, risks to project success, risks to the products or services, risks from missed opportunities, policy failures, and even risks to reputation. Risks can affect an organization’s performance, stakeholders, customers, and future livelihood. A clear understanding and plan are needed for managing risks. Done properly, a plan for mitigating risk can be integrated into existing strategic plans to meet key objectives, targets, and the demands of good corporate governance.

Good risk management reinforces the value of appropriate risk taking. It can also encourage innovation through promoting a no-blame culture. Risk management must not be seen as something in addition to effective operations; it must be part of what an organization does every day to be successful. Having a risk management process in place is critical for business success.

### Risk: A New Form of Waste

Many firms have started implementing CPI principles in their many forms (Lean, Six Sigma, Theory of Constraints,





**For process risks, a CPI planning tool called value stream mapping can be used by teams to effectively visualize and improve their key processes, as well as to identify and reduce risks in those processes.**

- What could be missing or wrong in the information flow to cause one of the high-level risks?

Some possible causes of risks are entry errors, inadequate equipment to perform a task, and even language barriers.

Value stream mapping is a form of process mapping that also includes the total accumulated time (both value and non-value added) at the bottom of the map. It is time-scaled. The team mapped in detail the demilitarization (demil) and mutilation as a condition-of-sale process. This is one of the key processes for the Defense Logistics Agency's Defense Reutilization Marketing Service (DRMS), which sells scrap material, requiring it to be demilitarized or mutilated after the property is sold. After doing the traditional value stream mapping, the team made a second pass over the process, identifying potential causes of risks. These risks were documented on the map using different colored 3M Post-it® Notes. A Post-it Note representing each process step in the value stream map was placed in its own functional "swim lane" or row across a multi-rolled roll of paper. The team collected some key data about each process, including total process cycle, "touch" time, paper/information flows, and causes of risk.

Initial results for DRMS, after just a few weeks of implementing its risk control plan for the demil process, showed a 25 percent reduction in overall risk score (a product of the likelihood of each identified event, multiplied by the

impact if it were to occur, normalized by the team on a 1-to-10 scale). Significant improvements were also made to the process to help prevent improper releases of materials and reduce information errors.

The biggest benefit to using VSM to identify risk is that CPI tools are likely already used in organizations today. As organizations adopt Lean or other CPI methodologies, they should consider using VSM as a strategic planning tool to integrate, highlight, and prioritize opportunities for waste, risk, and complexity reduction. A key part of developing a company's risk management strategy and plans (step 5 in the DoD framework) is to set clear guidelines for continued risk management in all key processes. Using best CPI practices, the leaders of each value stream should create a new "vision" every 12 months or so to further improve the process. Because they are combined, risk analyses will be repeated in this same timeframe and implemented with improvements in flow, waste, and variation. Instead of making a supply chain more brittle (e.g., by removing inventory and going faster), this new process would reduce risk by addressing the causes alongside removing waste from a process.

Safety is a type of risk that is well suited to this approach. It is possible to get improvements in safety as Lean and CPI implementation ensue, but often the reverse is true in companies today. In an article circulated by Toyota Motor Manufacturing, Kentucky, Taiichi Ohno said, "Safety is always our first and foremost concern, and there can be no man-hour reduction activity without consideration for safety." He also warned that "there are times when improvement activities do not proceed in the name of safety." As flow and efficiency improvements are made, people go faster. This can cause injuries. If the CPI team makes risk a part of their value stream mapping while elevating safety to a high-level risk, they will proceed with actions that must also improve safety.

### **Summing up the CPI with Risk Management Process**

The team added more elements to the standard DoD 5-step risk management framework to reduce and manage risks even further. This allowed the team to focus on the actual risk-reduction activities as risks were identified. The following list highlights some key steps to reduce risk within the framework of a larger CPI effort. The second-level items show the added elements in the typical VSM methodology that identify and reduce risks:

- Identify key process to improve (core processes that add value for your organization)
- Create a team tasked to continue working until the goals are met
- Create a Current State Value Stream Map; validate

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