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A Proposal for Risk-Based and Outcome-Oriented
Approaches to FSC's Normative Framework

V1-0

Discussion paper

FSC

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A Proposal for Risk-Based and Outcome-Oriented Approaches to FSC's Normative Framework

1. Introduction

The FSC priority project: *Streamline the Normative Framework* was initiated in early 2017 to develop and test tools that incorporate principles of risk management into the development and revision processes of normative documents. The goal of the project is to identify opportunities to make the normative framework more stable, responsive, simple, predictable, cost-effective, and outcome-oriented, thus providing confidence for applying a normative framework that is best contributing to FSC objectives and values.

Two approaches were undertaken over the first half of 2017 to explore risk management opportunities. One sub-team took a 'step back' to observe the opportunities to use risk management tools from a macro or system-wide perspective, while another sub-team focused on the lessons learned from a micro or grassroots perspective.

This document investigates the first approach - a system-wide perspective - by identifying how a streamlined normative framework could benefit FSC, describing tools and approaches being developed that could help FSC move in this direction, consistent with timely delivery of FSC's Global Strategy and Implementation Plan[i].

The separate concept paper "A Proposal for Risk-Based Approaches to National Forest Stewardship Standards (NFSS) Development and Auditing" investigates the second approach – lessons learned from grassroots experiences on NFSS development and revision processes.
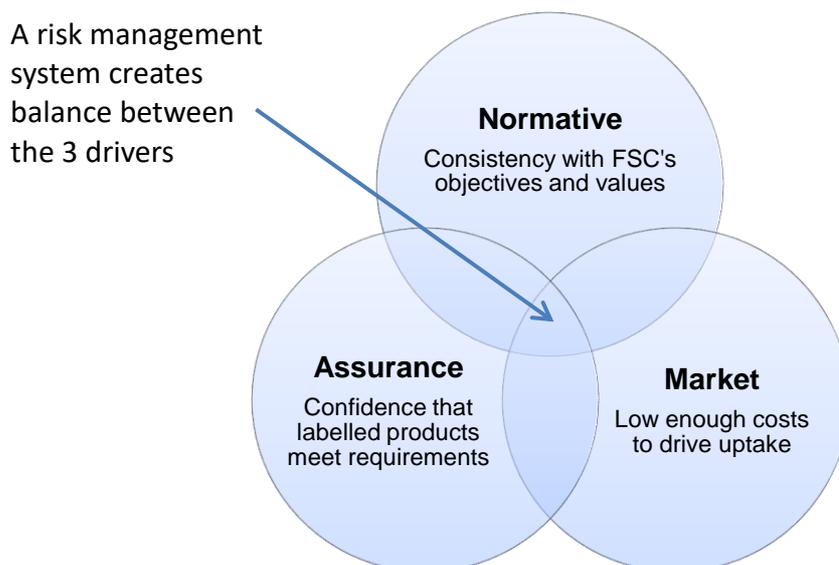
Altogether, both concept papers represent the current work and thinking of the project team, including expert input. They are shared with participants to the General Assembly to open the discussion and gather feedback on the proposed ideas, tools and approaches.

A complete and comprehensive proposal for a risk-based approach to the NFSS and to the overall Normative Framework will be presented to the FSC Board of Directors in December 2017.

2. Objectives for FSC's Normative Framework

The 'normative framework' is the sum of FSC's standards and documents that determine FSC's related processes, which consists of over 90 policies, standards and procedures, and spans all programmatic areas including policy for association, dispute resolution, forest management standards, chain of custody and controlled wood, covering both certification and accreditation requirements.

Figure 1. Objectives of the FSC Normative Framework

A risk management
system creates
balance between
the 3 drivers

Normative
Consistency with FSC's
objectives and values

Assurance
Confidence that
labelled products
meet requirements

Market
Low enough costs
to drive uptake

As directed by FSC's Global Strategy, the normative framework should be effective, balanced, achievable, and have sufficient market benefit to drive uptake. The normative framework should also fit within a strong governance structure informed by strategic long-term thinking, be accountable to stakeholders, and be relevant and user-friendly for those affected by policies and standards.

Striving for continual improvement, FSC's risk-based approaches promote best-practices, particularly the use of a risk register and risk management plan, and are designed to be consistent with ISEAL guidance, itself based on ISO requirements.
Along with a sound assurance system and good governance, FSC's normative framework exists to help ensure that labelled products meet stakeholders' needs and expectations.

3. What is the problem? What are the opportunities?

Through years of successfully delivering certification. FSC has evolved a model based in large part on risk elimination. As a consequence and voiced by stakeholders, members and staff, concerns have been raised about the certification system and normative framework. Critical points include:

- The normative framework is overbuilt and complex, with internal contradictions, redundancy and inconsistency; this impacts effectiveness and accessibility.
- Many requirements are not relevant at a national level, achievable, or effective in improving forest management for certificate holders.
- Requirements do not adequately match impact, and may be unduly focussed on minor or individual issues that have become a burden to the entire system.
- Altogether, this has resulted in costly standard-setting processes and implementation of requirements.

Possible reasons why we face these problems include:

- Interests rather than thorough problem investigation influence solutions.
- Solutions are often additive rather than based on rigorous analysis of whether the solution will address the problem.
- Sometimes certification is used to solve problems that are outside the sphere of influence of the certificate holder and this tool.

- FSC has evolved a model partly based on risk elimination.
- FSC is not learning from experiences in a systematic way.

A risk-based, outcome oriented approach could address some of these issues, allowing greater focus on the most important, urgent and impactful issues facing the management and utilization of forests. A risk-based management system could provide tools for thorough problem investigation, evaluation of proposed solutions, and an evaluation and monitoring system that is used to inform other processes. This paper suggests that decisions and actions influencing the normative framework need to be based on more rigorous analysis.

4. What are we doing? Risk and the Normative Framework

FSC, like other standard systems, is in the risk management business. In fact, risk management (including stakeholder consultation, transparency, robust standards addressing adverse impacts, a credible assurance system and associated policies), is at the core of FSC's work to improve forest management.

Together these endeavour to reduce risk to:
- the social, cultural and environmental values FSC seeks to protect and enhance;
- the reputations of those who are permitted to use FSC's logos, claims and labels;
- the credibility and reputation of the FSC scheme; and
- the competitiveness of the FSC system.

If done well, good risk management could increase FSC's effectiveness, lower costs for standard developers and those implementing the standard, thus extending our reach and impact.

This project seeks to increase effectiveness by providing tools to:

- Better **match the normative framework requirements to actual risks**. This means increased targeted requirements for high-priority values (or where there is a high likelihood of impact), then for low priority (or where there is a low likelihood of impact) values. A risk-based approach can thus streamline and make the normative framework more outcome-oriented.
- Ensure any changes to the normative framework are considered in a diligent but timely way, i.e. that the **opportunities and risks associated with the change are well considered**.

FSC will need to look across its normative framework, to see how risk concepts and tools are already being used, to understand how well our products (e.g. policy for association, forest management standards, chain of custody and controlled wood) are aligned with suitable risk thresholds. FSC needs to **understand how risk is applied across the normative framework.**

Risk management tools can be used to look at normative documents by theme (e.g. forest management standards including smallholder standards, supply-chain standards, etc.) to see how related standards work together. Based on identified problems, we can ask which standards are closely related and present the greatest opportunity for solving the problem. This targeted approach should focus attention on key standards. Once such standards are identified, a risk-based process can also lead to recommendations for possible revisions of normative documents.

The proposed risk management tools, are targeted to apply to standard-setting processes, including the development and revision of normative requirements and guidance. However, they may also apply to how certificate holders and certification bodies implement the requirements. The primary users of the tools will be FSC staff

responsible for managing globally applicable standards and policies as well as national office staff responsible for developing national forest management standards.

Using the tools to change and adapt the standards and policies within the normative framework is just one step towards streamlining. By applying these tools we also change the way we work. Utilizing these tools would require and eventually lead to a change in management and practice in the future development and use of the Normative Framework.

5. What do we mean by an Outcome-Oriented Normative Framework?

'Outcome-orientation' can be interpreted in a number of ways. Over time, the normative framework as a whole may become more performance-based and less process-based.

However, in the shorter term, better outcome-orientation could be achieved simply by removing irrelevant and redundant parts of documents of the normative framework. Individual requirements may be monitored to explore whether they are achieving their intended purpose. For each of these steps, a risk-based approach will ensure that efforts are focussed on the most relevant requirements, considering credibility, consistency and costs.

6. Summary of Challenges, Opportunities and Benefits

6.1 Credibility and Cost

In using a risk-based approach, FSC needs to be mindful that improvements in cost and accessibility may lead to reductions in confidence and credibility, and *vice versa*. In other words, we must be very careful to ensure that streamlining enhances FSC's ability to meet its stakeholders' aspirations.

6.2 Complexity and inter-relations

Care must be taken that attempts to streamline the normative framework do not increase complexity, but rather reduce complexity. The risk-based and outcome-oriented tools developed to help with streamlining must therefore be user-friendly, proportionate and scalable, both to the user of the tool and in what the tool is meant to deliver. It can also be argued that by giving more rigor to development processes adds complexity to the development phase, in order to get more effectivity in the implementation phase.

Elements of the normative framework are very inter-related and complex by nature. Therefore, a change to any one part of the framework may affect many other parts. Due diligence also requires that any proposed changes to a part of the framework consider impacts elsewhere. A draft 'change protocol' will screen whether the proposed change is for the better. A map of the normative framework that shows the inter-relations will be another valuable tool.

6.3 Whose Risk and Risk Tolerance?

Critical questions need to be considered regarding whose risk is being managed, and what is the tolerance of risk of these user groups. It is also possible that reducing risk to one stakeholder may increase risk to another.

Zero risk is not always optimum risk. Sometimes it is worth taking carefully-assessed risks to gain benefits, such as having an extended reach and accessibility to FSC certification. Any changes will need to be assessed in terms of their risk and opportunity with their cost and benefit to FSC's objectives and values.

6.5 Communications & User Friendly Platforms

Designing more user-friendly documents and information platforms will help users access information and understand the linkages between documents. In turn, this should improve delivery and uptake by users, thus streamlining efforts. The normative framework may need to adapt new technologies that can create audit efficiencies. Investigation of appropriate platforms is proposed as part of Phase 2 of the project

7. The tool box for a risk-based management system

Tools to support an outcome-oriented risk management system should be equipped to address the broad range of scenarios, influences and/or changes made to the normative framework. An ideal risk management system would support the management and maintenance of all programmatic areas, across all layers of the organization whether it be in how normative related motions are analysed, how revisions are conducted, and how proposed new approaches for improving forest management standards are developed, analysed, piloted and monitored. Since the normative framework consists of over 90 documents that span all programmatic areas that are maintained and used by FSC standards and policy units, assurance staff and working groups, certification bodies and ASI, tools will need to be adaptable and scalable to meet the needs of the user.

Examples of questions, analyses or problems that might be processed through a risk management system include:

- To make forest certification more accessible to smallholders, what new approaches could be effective; are these solutions allowed within existing rules; what changes to normative documents would be needed to allow for proposed new approaches to happen?
- To streamline related groups of normative documents like the forest management standards, how are the standards currently working together and what changes could be introduced to make them more impactful, effective and efficient?
- How could a risk management approach be used to guide the next revision of FSC's standard setting procedure (The procedure for development and revision of FSC normative documents, FSC-PRO-01-001)?

An outcome-oriented, risk management system is made up of several tools.

MAP OF INTERRELATIONSHIPS BETWEEN NORMATIVE DOCUMENTS: *normative documents can be grouped by programmatic area (e.g. chain of custody, controlled wood, forest management etc.) and by category (e.g. content related, process related, assurance related etc.). Through the project we are developing an up-to-date map of documents including their relevant inter-relationships. By building a comprehensive understanding we can better identify which standards to prioritize when assessing a topic area or problem as well as understanding what standards that may be affected by the proposed change.*

MAP OF PROGRAM AREAS & RISK: *considers how risk is addressed across program areas, including policy for association, dispute resolution, forest management standards, chain of custody and controlled wood, covering both certification and accreditation requirements. Building a comprehensive understanding of how we consider risk within the organization and set corresponding thresholds will help us to calibrate certification tools, and clarify different levels of risk tolerance across standards.*

A RISK POLICY: *will help us orient further analysis. Included in a risk policy is an overview of the relationship between a risk system and the overall objectives of the normative framework; a description of whose risk is being managed; a description of the overall risk management system including plan, change protocol, ISEAL membership, stakeholder consultation/engagement; identification of responsibilities (board members / staff members)*

and their respective levels of decision making; and based on solicited feedback from stakeholders (whose risk we are managing), determination of their risk tolerance.

RISK REGISTRY: *lists present and potential threats related to the normative framework that may affect FSC's ability to achieve its objectives. The registry is a living document being continuously updated.*

PROBLEM REGISTRY: *building on the risk registry, a 'living' problem registry identifies the problems, and considers common root causes for the identified problem or threat, and assesses their risk ratings, compares them with targets, priorities, and shows mitigations and responsibilities.*

***LEARNINGS FROM MONITORING AND EVALUATION:** compliance data and monitoring the effectiveness of key success measures will help us track whether we are having the desired effect and impact. Through time, FSC tracks key metrics with findings fed back into relevant future analysis and decision making.*

***CHANGE PROTOCOL:** ensures proposed changes are wise and are timely, including:*
- Agreeing the expertise required and key opinions to be solicited, the maximum and optimum time to be taken to consider options, and where responsibility rests for managing the assessment and making recommendations and/or decisions.
- A sufficiently comprehensive assessment. A set of seven key questions has been drafted.
- Determining what recommendations are made to the right people.

***RISK LOOP:** working in parallel to the CHANGE PROTOCOL tool, the loop directs process and provides structure for the risk management system. The loop is a modified version of the ISO Risk Loop that is well recognized as an industry norm. The development of the loop was done in parallel to the proposed new process for streamlining forest management national standards process, and are therefore compatible.*
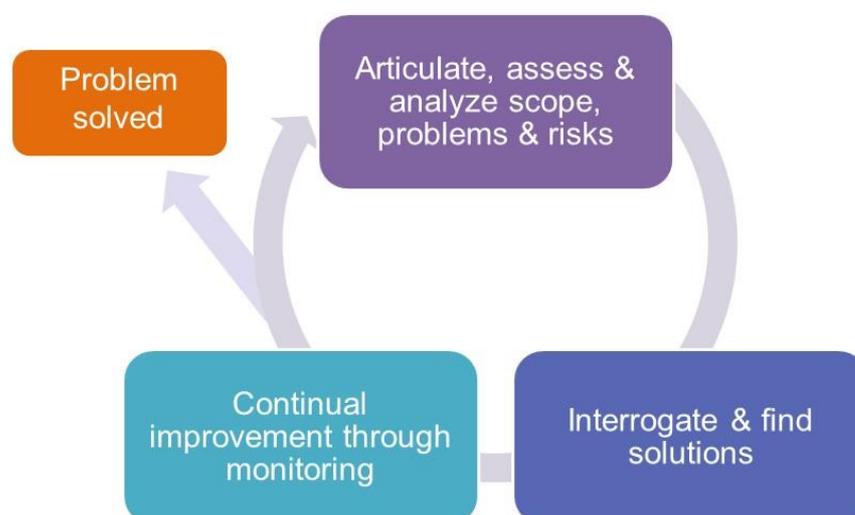
8. Workplan Outline

The project was initiated in early 2017 and is divided into two phases.
Phase 1 (2017, see diagram below) will deliver a set of risk management tools that will help identify and analyze problems, risks, and emerging solutions. It will also deliver a plan for how to apply these to the NFSS. During phase 1 the initial focus will be on approaches to streamline forest management certification system, however the project will also consider the needs for risk tools across the normative framework.
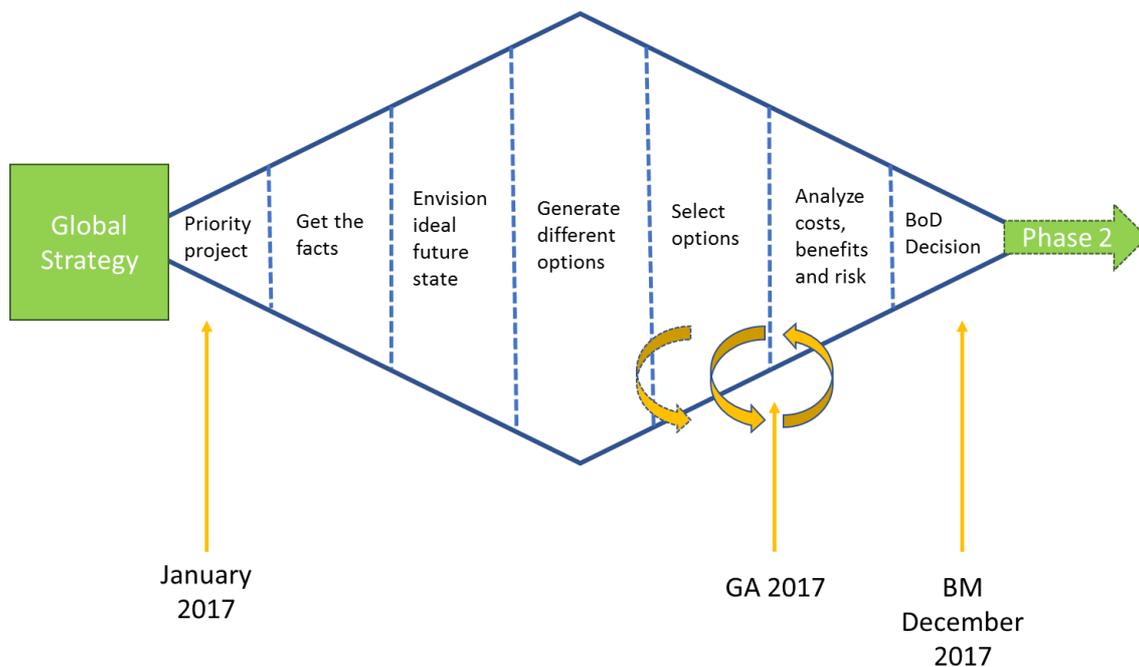
Phase 2 (2018-2019) will focus on how to test and apply the risk management tools to the normative framework. Further testing may also be necessary to finalize the risk-based approaches to be applied to the NFSS. Supporting documents will be developed to facilitate the application of the tools. During this phase targeted stakeholder consultation is foreseen to inform the development of the risk policy.

Availability of further information

For further information on this work stream, please contact: Vivian Peachey at v.peachey@ca.fsc.org

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[i] This work directly supports the first two Critical Result Areas of the Global Strategic Plan 2015–2020

- ✓ Critical Result Area 1.1 - Streamline the normative framework: '*FSC will improve certification uptake, cost-effectiveness and outcomes by stabilizing and simplifying FSC policies, standards and procedures while maintaining system integrity, transparency, and credibility*'.
- ✓ Critical result area 1.2 – Increase quality and consistency in practice: '*FSC will improve certification processes to increase the quality and consistency of the application of standards and policies, both internally and via accredited certification assessment bodies*'.