The top articles for Risk professionals seeking advice, case studies and best practices on how to manage risks.

GlobalRisk Community

Volume 1

RISK MANAGEMENT HOW TOs

The world's premier online risk forum for professionals and service providers

Global Risk

Series Book 1

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Founder of Global Risk Community

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Contents

Introduction

Dear GlobalRisk Community member,

Our community's mission is to foster business, networking and educational explorations among members. Our goal is to be the world's premier Risk forum and contribute to a better understanding of the complex world of Risk.

As part of delivering on that mission we decided to create a Global Risk Series from our best content. In contrast to the almanac, these will be shorter e-books on a single special area of expertise.

The first book in the series is all about the most practical skills you have to know and apply in the field of Risk Management.

Learn from some of the top experts in the industry as they clearly explain how to approach the most important Risk management concepts. Check out their expert tips and use the link at the end of each article to navigate back to the website to leave your comment or ask a question.

Special thanks go to members who contributed to this report: Bryan Whitefield, Risk Culture Builder, Steven Minsky, Vincent Kroening, Sonia Jaspal, Peter Chisambara, Deon Binneman.

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How do you Explain Risk Appetite?

Bryan Whitefield

Posted by Bryan Whitefield on November 1, 2012 at 4:48am

I have had some very interesting conversations lately with Boards, Senior Managers and Risk Managers about risk appetite. Here are some insights:

Describing what we mean by risk appetite

Risk appetite is risk speak, however, it can be easily explained. With private sector firms I tend to describe using dollars as the example - *"How much capital are you are willing to risk to try and make your forecast profit?"*

> Risk appetite is how much capital are you are willing to risk to try and make your forecast profit, or what are you willing to do to achieve your number one objective.

For not-for-profits, I tend to bring it back to values - "What are you willing to do to achieve your mission? What would you not do?" And for the public sector I tend to use their number one objective in their corporate plan - *"What are you willing to do to achieve your number one objective? Would a few minor adverse audit findings be OK? Would you be prepared to weather the storm if the media ran with a story about your methods?"*

Why risk appetite is important in risk management

I find putting risk appetite in context with how it is used when assessing risk is quite important. **I use the example of crossing the road.** The objective is the same, however, there is always a reason (running late for a meeting, running late for a hot date, to save your 4 year-old child from being abducted by a stranger). Your willingness to get to the other side based on your assessment of difficulty level to cross the road is an expression of your risk appetite.

Risk appetite statements

While risk criteria in the form of likelihood and consequence tables and a risk matrix are valuable expressions of risk appetite, staff who were not involved in the discussions that formulated them are not aware of all of the thinking behind them. Providing additional commentary on each category of risk and on the core corporate objectives will communicate a much clearer message to staff as to what constitutes acceptable behaviour.

Read this article on the website Click Here

How to Prepare a Risk Statement

Bryan Whitefield

Posted by Bryan Whitefield on October 16, 2012 at 2:35am

Here are a few tips about risk statements and a link to one of my presentations where I outline how to complete a risk statement.

First and foremost, a risk statement is a conversation between the risk owner and any stakeholders that have or should have an interest in the risk. It is also a record of your analysis, a baseline for initial and ongoing risk reporting and a to-do-list for the risk owner to monitor.

If your risk statement fulfills its role as a conversation between the risk owner and stakeholders, each stakeholder should have a clear appreciation of your position regarding the risk. That does not mean they have to agree with it, however, they will have enough information to engage with you and decide for themselves if they agree with the analysis or if they recommend changes.

> A risk statement is a conversation between the risk owner and any stakeholders that have or should have an interest in the

In my view, the articulation of the risk should be with regard to a specific objective and be made up of a range of sources of risk taken to one and no more than two

levels below the objective (see the Sources column in the example). If in fact the achievement of the higher level objective is at high risk, then it may be warranted to continue well below the second level to get a clearer picture of what is driving the high risk level.

In my world of risk it therefore follows that you can capture a strategic risk profile for an organisation in 5 to 9 risk statements (risks) because most organisations have around 4 to 6 objectives. Then you may need to add some specific "risk" objectives such as one for safety if the organisation does not have a separate objective for safety or it is not sufficiently captured in a broader people objective.

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What is Risk Culture Building?

Risk
Culture
Builder

To start the process of Risk Culture Building, an organisation first needs to get an accurate picture of the current level of risk culture maturity in the organisation. Various attempts have been made to do this and generally most revert to some kind of questionnaire or checklist approach linked to a scoring sheet that is eventually tabulated to quantify an overall score which is linked to a perceived level of maturity. In some cases organisations call in consultants who use an interview process combined with some of the attempts already mentioned, the outcomes are then debated and agreed upon by consensus with the client.

Although most inputs in any kind of culture maturity assessment are subjective, there is value in using a combination of approaches, but generally the outcome, due to human nature and perception, is always mid-point or average. These processes also fail to identify specific weaknesses or action plans. There is also no standard definition for the different levels of maturity, but an interesting aspect is that most practitioners working on this use the concept of 5 different levels of maturity, this

in itself also contributes to most consolidated assessment results ending up at mid-point.

In an attempt to improve the accuracy of these kinds of assessments, Genius Methods; a leading UK consultancy in governance has recently developed and launched an on-line assessment tool. The tool uses sets of questions focused on six operational areas within the risk management discipline:

1. Policies;
2. Processes;
3. People and Organisational Design;
4. Reporting;
5. Management and Control;
6. Systems and Data.

One or more of the questions in each operational area is linked to a specific level of risk culture maturity in the defined 5 levels of risk culture maturity. The questions are not in any kind of sequence which relates to the different levels of maturity and the user can also not see the underlying mathematical calculations, thus the assessment process cannot be manipulated and the outcome cannot be predicted by the user. Various combinations of reporting of the outcomes are produced, but the most important aspect, other that the accurate measurement of the level of maturity; is that by

comparing the maturity levels in each of the six operational areas, the organisation can pinpoint the areas in which improvement is needed and focus their action plans accordingly.

The five levels of Risk Culture maturity have been defined in the assessment tool as follows:

- In a bad risk culture, people will NOT do the right things regardless of risk policies and controls;

- In a typical risk culture, people will do the right things when risk policies and controls are in place;

- In a good risk culture, people will do the right things even when risk policies and controls are not in place;

- In an effective risk culture every person will do something about the risks associated with his/her job on a daily basis;

- In the ultimate risk culture every person is a risk manager and will evaluate, control and optimise risks to build sustainable competitive advantage for the organization.

Urgent review required, no progress and possibly no strategy	Level 1, Bad Risk Culture
Some progress made to establish an ERM Culture, focus and drive ERM Strategy	Level 2, Typical Risk Culture
Below ERM Culture Maturity Average, review implementation process	Level 3. Good Risk Culture
Reasonable Level of ERM Culture established, review outcomes and reporting	Level 4, Effective Risk Culture
Mature ERM Culture, focus on continuous improvement and value add	Level 5, Ultimate Risk Culture

The five levels of maturity in the six operational areas are underpinned by a set of guidance standards to support organisations in formulating their action plans. These guidance principles are built as a result of years of research, supplemented by reviews of most global risk management standards and guidance documents from a number of organisations.

Once an organisation has established the level of maturity in each of the six operational areas within risk management, the Board of Directors and Executive Management can commence the process of Risk Culture Building. It is not possible to *implement* risk culture in any organisation; it is a process of *building*, starting at the top. There are no *best practices* that can be implemented, the risk culture must be built upon the underlying corporate culture, so each risk culture building process is organisational specific and unique.

Risk Culture Building is thus a process of change to instill new behaviours in the workforce, both the behaviours the leadership want to *encourage* and the behaviors they want to *avoid*.

Risk Culture Building is the process of growth and continuous improvement in the way each and every person in an organisation will respond to a given situation of risk as to mitigate, control and optimize that risk to the benefit of the organisation.

Risk Culture Building is the process of growth and continuous improvement in the way each and every person in an organisation will respond to a given situation of risk as to mitigate, control and optimize that risk to the benefit of the organisation.

No two people will respond the same way to a situation of risk, the way any person responds to risk is influenced by a number of factors, the main ones are:

- Nationality & culture

- Childhood experiences (and formative environment)

- Work ethics, trust & honesty

- Education (and the way it was obtained)

- Work experience

- Religion and other spiritual thinking

- Attitude towards life (and death)

Risk practitioners generally failed to address these underlying human aspects. Since the publication of the Basle accord, ISO 31000 and other standards and regulations, it has often been argued that compliance with these standards and regulations will mitigate and control risk, but this is only true if the standards and regulations are embraced in an effective Enterprise Risk Management Culture. Just like the policies, procedures and systems, these are worthless if human attitude, acceptance and desired response lack.

Addressing the aspect of people risk is the only way an organisation can improve the results of how their people respond to a situation of risk and the effectiveness of their risk management function. No organisation can ever have a perfect risk management culture, but organisations can achieve a level of maturity where they have an effective risk culture process and every employee is risk-minded and does something on a daily basis to mitigate, control and optimize risk

The development of Risk Culture Building is focused on awareness and training in business ethics and human behaviour, as mentioned, both the behaviours we want to

encourage and the behaviours we want to avoid. Organisations should frequently evaluate the progress (or regress) they are making on the path to maturity and implement action plans.

Every business decision is a RISK decision; what is your level of risk intelligence and how is your Risk Culture?

Read this article on the website Click Here

Presenting Risk Management to the Board

Steven Minsky

Posted by Steven Minsky on October 9, 2012 at 1:30pm

The first shoe to drop was government regulations holding the Board of Directors personally responsible for the effectiveness of enterprise risk management programs at their organizations. Boards are given a choice between proving their risk management programs are effective or disclosing their ineffectiveness in risk management to the public. If they do neither, it is considered fraud, as not knowing about a risk is no longer a defense.

What does enterprise risk management effectiveness mean? Not being involved in the day-to-day running of the company where most operational risks actually occur means Boards of Directors must, through their risk oversight role, satisfy themselves that the risk management policies and procedures designed and implemented by the company's senior executives and risk managers are effective at identifying all risks and demonstrating assurance over the most material ones.

Risk is viewed at its highest level by the board. Some people make the mistake of inferring that this risk information should then also be collected at only this high level, but this is ineffective because of the gap between senior management and the front line activity level where risks first arise. The key to determining the effectiveness of a risk management program is the ability to collect risk information from the business process-level and aggregate this information, while preserving the effects of related upstream and downstream dependencies.

Since the liability for error is so high, Internal Audit has now been tasked to do the fact-checking on the risk management information being presented to the board to ensure its integrity at the front line business process level. The Institute of Internal Auditors (IIA) announced this week it has revised its International Professional Practices Framework (IPPF), effective Jan. 1, 2013. These mandated changes require auditors to validate the most timely and most significant risks, especially those that impact the achieving of the organization's strategic objectives.

The role of the enterprise risk manager has now finally become clear to close the gap between strategic level risk and all the operational risks at the activity level at the

front line of organizations. The risk manager is responsible for setting the standards, practices and procedures for effective risk management and embedding them in all existing business processes. The risk manager is now accountable risk metrics. This requires putting a mechanism in place to collect this risk information at level where most operational risks materialize and aggregate this risk information to a level the Board cares about, while preserving the links to the front line and the resources involved and then tie together the risks in related business processes--all at the activity level so an audit trail is clear for internal audit to follow.

Organizations have realized that their board level attestations on the effectiveness of risk identification and assessment can no longer just be a facilitated interview at the senior management level; instead, there needs to be a rigorous process at the activity level through the lens of what is material, not just in isolation of a single business silo, but overall as all the pieces come together at the top. The goal is to identify and objectively assess operational risks and ensure risk mitigation is in place at the activity level independently and then collectively. This integrity of this risk information needs to be preserved when aggregating and summarizing by the strategic goals of the organization.

A ERM Software or GRC Software with a risk based approach is the only way this process will work effectively and the RIMS Risk Maturity Model spells out each of the 25 requirements that must be met to put a risk taxonomy in place for an effective and efficient enterprise risk management program that meets the rigor of compliance and now internal auditors review.

Click here to watch a free On Demand Webinar, "Presenting Risk Management to the Board".

Read this article on the website Click Here

Risk Leadership - Should a Board have a Risk Committee?

Posted by Bryan Whitefield on September 13, 2012 at 3:23am

Bryan
Whitefield

In November 2009, I contemplated "[Should Board Audit and Risk Committees be Separate?](#)" and today I question "Should a Board have a risk committee at all?"

In 2009 I concluded:

- **Management's responsibility** is to identify, manage and report on risk with a predefined risk appetite which has been established in consultation with the oversight body, most commonly a Board of Directors or an Advisory Board.

- **The Board** has an "assurer role" to provide stakeholders with assurance that management has done their job on risk.

- **The Board** has a "mentoring role" to provide oversight of the risk management process.

- Therefore *there should be separate Audit and Risk committees* fulfilling different roles, in particular for larger organisations with much larger amounts of information to process.

Since 2009 a few things have caught my attention that have caused me to consider whether the Board should have a risk committee at all. An example is APRA's requirement for Boards "... to understand the risks of the institution, including its legal and prudential obligations, and to ensure that the institution is managed in an appropriate way taking into account these risks."

Although APRA's requirement only applies to organisations they regulate, I believe it is applicable to all boards. How then can a Board delegate risk to a sub-committee of the Board? Surely it is necessary for each and every director to understand the risk profile of the organisation. My advice to Boards is:

- Have a Board Assurance Committee which, through audits and other means, is responsible for ensuring the risk management framework put in place by management is appropriate and working, just as it does with all the other key processes of the business.

- The Board collectively should be in discussion with management to ensure the Board and Management understand the implications of strategic, business unit and major project risk profiles presented to the Board and whether or not risk levels are within the risk appetite set by the Board and Management.

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Risk Appetite - Setting it Right

Posted by Bryan Whitefield on August 24, 2012 at 4:03am

Bryan Whitefield

As a risk workshop facilitator I get to assist many organisations assess risk to their key organisational objectives. Interestingly the outcomes are not always about risk treatments, often they are about reviewing risk appetite.

Situation One:

The results of the risk workshop show that three of five key strategic objectives have Extreme risk ratings. This may be due to one of two scenarios: Either you are an organisation that is on the edge of the cliff OR your risk criteria are simply wrong. If the latter, you haven't expressed your risk appetite clearly. In this case, developing a risk appetite statement to augment risk criteria would help you to set the risk rating criteria more appropriately before the workshop.

Situation Two:

The risk workshop results in Low risk ratings for all your key strategic objectives. Again this may be due to one of two scenarios: Either your risk criteria are simply wrong where again development of a risk appetite statement to augment risk criteria will help OR you are "at risk" of being too conservative. You may need to

raise the bar higher. On the other hand, you may be very content in your apparently low risk world.

The key point is that a clearly articulated risk appetite will drive people's behaviour so you need to set it right to drive the behaviour you want to see.

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MAKING THE MOST OF COMMERCIAL LENDING – HOW DO BANKS GET THERE?

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Making the most of commercial lending – how do banks get there?
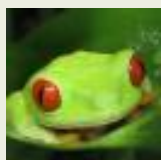
Posted by Vincent Kroening on July 12, 2012 at 6:45pm

Vincent Kroening

Since the financial crisis, the banking climate has changed considerably. What used to be an abundant landscape where most, if not all banking providers coexisted profitably, is gone.

Today, banks have been forced to operate in a drastically more competitive environment. Increased access to information, advances in technology and greater choice has given the consumer more freedom to 'shop around', placing them clearly in the driving seat.

The longstanding relationships banks once enjoyed with their customers are now under threat from greater, more diverse competition, as retailers with advanced customer profiling capabilities and new market entrants swoop in for market share. The result? Customer loyalty has virtually become obsolete.

Looking from the outside in, banks are also grappling with numerous internal challenges, as high profile failures have placed bank's risk taking activities under heavy scrutiny. This has left bank boards, regulators and auditors calling for greater visibility, more transparency

and better control over lending portfolios and associated risks. The dwindling returns of the banking industry leave little to no room for error. Banks have been left with no choice but to capitalize on market opportunities to safeguard future profitability. The commercial lending space is an area that offers significant opportunities, but are banks ready to win big here?

There are just three steps to success in the commercial lending market.

First, banks - gain true insight into the credit quality of their customers. The whole industry has been talking about customer centricity for years, but how many banks are walking to walk? There is no doubt about it, banks need to attract the best quality credits. That's a must. It's an imperative. Relationship Managers need to become the customers trusted advisor, increasing customer loyalty through timely, prompt, and convenient service, and they need to do that at a competitive price. Not only that, but if they do not execute each and every customer interaction flawlessly, customers will not only walk, but with social media at their fingertips and word of mouth at their lips, they will talk. Deeper knowledge of the customer is the cornerstone of strong, loyal and profitable customer relationships.

MAKING THE MOST OF COMMERCIAL LENDING – HOW DO BANKS GET THERE?

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Banks also need to lower costs by implementing strategic initiatives to enhance operational efficiency. They can substantially reduce costs, improve long-term efficiency, and foster better customer responsiveness by incorporating higher degrees of automation, and most importantly, by streamlining processes throughout the commercial lending lifecycle.

Lastly, banks need to proactively manage their portfolio and ensure constant regulatory compliance. To do this they need to better integrate risk management into their strategic decision-making processes. This will give bank boards, senior management teams, along with the regulatory and audit communities, visibility, transparency, and control over the portfolio, and most important, a view into the associated risks.

So, to climb the ladder to success in commercial lending, banks must think customer, cost and risk – all of which are much labored points in today's market, but equally are game changing assets to the future survival and profitability of any bank today.

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Risk Leadership: To Quantify or not to Quantify

Posted by Bryan Whitefield on July 6, 2012 at 7:10am

Bryan Whitefield

Douglas Hubbard, in his book "The Failure of Risk Management", claims that risk management failed us in the lead up to the GFC because of flawed risk models, the use of qualitative risk assessment through the use of risk matrices or both. He contends that anything can be measured and that we should be measuring.

The case for quantification

There is no doubt in my mind that quantification is better than using our best judgement because our minds are at the mercy of our psychological biases. A couple of examples:

Confirmation biases - eg: If you are told a contractor is a poor performer you will have a tendency to pick up on bits of information about their poor performance and ignore the data about their good performance. This is because we all have a tendency to hear through all the noise the "evidence" to confirm our initial feeling about a subject.

Biases from the "availability heuristic" - eg: Shark attack. We tend to overestimate the likelihood of a dramatic event if we have lived it and seen it or been exposed to it in the news recently because the evidence of it has recently been available to us. This is why we underestimate the likelihood of disasters after a long period of calm.

The case against quantification

Two points only here:

1. Business is extremely complex and to do quantification justice it can be very resource intensive. The harder we make it for the business the less likely they will listen to us.
2. You can have the best risk models and risk modellers in an organisation, however, if you have a poor risk culture, calamities are not far away. By taking the less complex option and bulking-up risk management efforts with subjective risk ratings with minimal quantification, you are more likely to lead more staff to better consider risk in their decision-making.

The solution: Create datasets to provide yourself with the opportunity to quantify risks. I am always saying there is no "right way" to do risk management. ISO 31000 itself indicates it is a guidance standard providing

principles and guidelines rather the "right way". So I believe both quantification and qualification have their place, however, longer term I believe we need to increase our ability to quantify risk. If I were you I would be looking to create datasets where success and failure rates can be derived. This would result in more informed analysis of risks as common as IT budget blowouts.

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Risk Leadership: Managing Risk to the Right Objectives

Posted by Bryan Whitefield on June 27, 2012 at 7:35am

Bryan
Whitefield

We define risk as "the effect of uncertainty on objectives" (ISO 31000), however how often do we stop and ask if we have the right objectives in the first place? On what basis were they formed? When were they developed? Have times changed? In my experience facilitating risk workshops, often a poor or even incorrect set of objectives is the "elephant in the room" for the management team.

Here are some tips for ensuring you have the right objectives:

Stakeholder Analysis

Identify your stakeholders, group them to keep them manageable, analyse them. What are the positive elements of their views of us? What are the negative elements? How important are they? *The key question here is whether your objectives align with those of your key stakeholders.*

Macro Environment

There are many options for this, however, a favourite of mine is PEST which explores the Political, Economic,

Social and Technology factors affecting the organisation or project. *If here you identify significant threats or opportunities that are not covered by your objectives you may need to adjust them.*

Industry Analysis

A powerful tool for analysis of the competitive forces in an industry is Porter's Five Forces. Although designed for industry analysis, it can be easily adapted to assess the internal competing forces within government or within an enterprise. *You may find that your objectives are too ambitious or not ambitious enough.*

Internal Analysis

For this analysis I prefer one of my own tools, RMP's Five Building Blocks which is the basis of RMP's risk management maturity model, the RMP Healthcheck. RMP's five building blocks are: Strategy linked to Performance, People linked to Knowledge, Processes linked to Systems, Assets linked to Liabilities and all supported by Organisational Culture. *Once again, if you have key strengths or weaknesses that were not recognised when your objectives were set you may need to rethink them.*

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Risk Leadership: Use Intellectual Capital to Sell the Benefits of Risk Management

Bryan
Whitefield

Posted by Bryan Whitefield on June 19, 2012 at 3:07am

It is often said that the benefits of Risk Management are intangible. No argument here. It's tough to say "You were successful because I helped you manage your risk" when you are talking to an already successful CEO. How then do you demonstrate the benefits of Risk Management?

One approach is around the concept of Intellectual Capital. When we talk about the value of a business, we talk about book value and market value. The difference between book and market value is often described as the intangible asset value or the value that the intellectual capital within the organisation brings to the table. What does intellectual capital have to do with Risk Management? Risk Management enhances intellectual capital because its main role is as a knowledge enabler. Risk Management enhances the knowledge of people within the organisation and based on the principle that the sum is greater than the whole, it enhances the sum of all knowledge in the organisation.

- Risk Management enhances the knowledge of the keepers of the real assets such as cash, property, plant and equipment so that these are better protected and better conditioned to withstand impacts and take advantage of opportunities.

- Risk Management enhances the knowledge of keepers of other assets of the organisation such as key processes and systems to ensure they too can withstand impacts and take advantage of opportunities.

- Risk Management also enhances the fundamentally most important asset of an organisation - its culture. Risk Management helps drive people's behaviour towards better decision making.

If you can work on your sales pitch to executives around these concepts you will be even better placed to sell the intangible!

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Preparing Annual Risk Management Strategy

Sonia Jaspal

Posted by Sonia Jaspal on October 21, 2010 at 1:22pm

Organizations would be focusing on preparing the risk management strategy and plan for 2011 as it is the last quarter of the year. Normally, Chief Audit Executives, Chief Risk Officers, Head of Internal Audit, Chief Information Security Officers, Head of Compliance, Head of Ethics and Head of Fraud Risks are very busy in the last quarter finishing off the year-end targets, objectives and key performance indicators. The next year strategy is developed from the previous year reports, observations, balance score cards and risk dashboards. A simplistic risk management strategy focuses on the following:

1. Financials -Developing a budget and other cost indicators
2. Operations- Preparing audit and review schedules. Listing out policies, procedures and manuals to be prepared and reviewed.
3. Resources- Formulating a hiring and a training plan
4. Knowledge – Developing knowledge bases, writing research papers and upgrading risk management tools and software.

Risk management has become complex and critical in the present economic environment. Without sophisticated and skilled risk management departments the organizations may face multiple disaster scenarios. Globalization, technology, economic environment, regulators, competitors, and speed of change, all have contributed in making business operations more complex. Risk management departments need to gear up and develop annual strategy considering these aspects in mind.

Five suggestions for preparing a comprehensive annual strategy are given below:

1. Break the Silo Approach

Depending on the size of the organization, the organization may have a number of departments focusing on risk management. To name some, in respect to the department heads mentioned in the first paragraph, we have Internal Audit, Fraud Prevention & Investigation, Risk Management, Compliance, Information Security and Business Ethics. These departments generally have some overlapping functions and turf wars. Silos are formed and the senior management has difficulty in making sense of various risk dashboards and reports presented by the department heads.

Prepare individual plans for the departments and roll them upwards to have a combined one of all risk management departments. Prepare one single risk management strategy and plan for the organization as a whole to present the same to senior management. Present a plan to the management which emphasis on the top risks to the organization, with a plan to mitigate and control them. The management will have higher respect and provide greater support to the integrated approach. Various risk management departments will also be able to save cost and time on monitoring various risks by reducing duplication of work, leveraging synergies and sharing tools and information.

2. Determine Risk Philosophy and Appetite of the Organization

In some cases, the risk management departments present a risk dashboard to the senior management of the organization. If the CEO of the organization asks "Can I hold you on this? Are you sure that if these top 10 risks are mitigated, the organization will sail through the year?"; the head of the department generally cannot a say a definitive "yes". The answer is given with a maybe, but, if etc. but not a "yes". So the question is how should a risk manager address this concern.

Risk management department need to determine the risk philosophy and appetite of the organization. To assess the risk philosophy, understand the organization culture and environment. The way business operations are conducted daily and the organization's strategy are good indicators to find the risk philosophy. Assess whether business has an aggressive or conservative attitude towards risks for achieving business goals.

Risk appetite is the amount of risk which the organization is willing to take to undertake business activities. A simple question to ask the board of members would be -"What amount is going to make you uncomfortable if it appears in the business newspapers?" Consolidate the risk exposures from the various risks identified by the risk departments and present it to the board. Finally, assess whether the company's internal outlook on risk philosophy and appetite are consistent with the viewpoints of the board and other stakeholders. Realign the two where required to prepare the annual strategy.

3. Understand and Integrate with Business Strategy

In a few companies, the annual strategies and plans of business and risk management are drawn up in parallel, with neither having information of what the other is

planning. The risk management strategy cannot be internally department focused. The risk management heads need to obtain information on the business strategy of the organization to understand strategic risks.

For example, obtain information on new products and services which the organization is introducing in the coming year. Identify the territories, branches, and countries which the organization is planning to expand its business operations. Determine what will be the risks of expansion and innovation. Let us say, a USA company is planning to introduce its products in India. Now India has different laws, regulations and taxes. Also, the operational risks are different. Understand these risks and integrate them in the annual strategy and plan. This way, neither the risk management departments nor the business operation departments will be surprised. The budgets and plans would be incorporated and approved before the year commences, hence there will be limited fire fighting.

4. Focus on Building Relationships

One of the grouses which risk management departments have is that they are not on CXO's radar, do not have direct reporting to the top or representation at the board

and are sidelined from the critical business operations due to negative perceptions.

Plan for the coming year and prepare a wish list. Include in it time required from CEO and other CXO's, formation and membership of risk oversight committee, a new organization structure with the head directly reporting to CEO and a nomination at the board. Discuss these aspects with the CEO and senior management during plan preparation. This will ensure that the senior management schedules the requirements in their plans. Insist that the CEO puts risk management as one of the points in his/her personal balance score card. This will make sure he/she is dedicated and committed to risk management throughout the year.

Discuss the composition of the risk oversight committee and audit committee. Identify the members you wish to nominate who support risk management initiatives. Define the process of reporting to the board and the audit committee. Get their commitment for board nomination and new organization structure for risk management departments. Start the groundwork for building relationships at the planning stage itself.

5. Assess Competitors Strategies

The risk management departments are generally happy with what they are doing and discover information about

tools and methodologies from various institutes periodicals, magazines and conferences. In a few cases there is some focus on the operations of risk management departments of competing businesses and organizations.

Determine which organizations are competition to the business in respect to products and services in various territories. Focus on finding information of the risk management department operations of these organizations. Find out which risks the organizations faced, how they were mitigated, what kind of tools and knowledge bases they are using, what are the staff strength and the skill set and the organization structure. Will some of the practices result in cost savings and better synergies within business? Determine the similarities and differences, and assess what can be incorporated in your organization effectively. There are some lessons which can be learned from competitors success and failures. Leverage on competition knowledge to learn these lessons.

The above mentioned five points are those which can be easily incorporated to prepare a comprehensive annual strategy. There are a few other things which the risk management departments can look into. Some of them

are, introducing ERM, building risk management department's brand, applying collective intelligence etc.

A single line of advice would be to look at the bigger picture and question the status quo. Put on your thinking hats and prepare a new strategy. Wishing you all the best for preparing the annual strategy

If you wish to read more visit Sonia Jaspal's RiskBoard at http://soniajaspal.wordpress.com/

Read this article on the website Click Here

Creating a risk-focused organization

Posted by Peter Chisambara on September 2, 2010 at 3:05pm

Peter Chisambara

The nature and type of risks facing the organisation:

One of the main challenges facing managers in today's constantly changing business environment is dealing with uncertainty and creating a risk-focused culture within their organisations. New technologies, new concepts (such as social media and web 2.0), and changing market dynamics are all presenting managers with both threats and opportunities.

This uncertainty has the possibility of creating or destroying customer value and shareholder value, strengthening or weakening brand reputation and above all increasing or decreasing the organisation's competitive advantage.

Understanding the nature and type of risks facing the organisation is the starting point to a successful creation of a risk-focused organisation. With an ever changing business environment comes an increased number of risks. Though risks can be identified separately, for example, supply chain risks, people risks, catastrophe risks, IT risks, reputation risks, country risks etc. one

way of identifying these risks is by grouping them into the following sub-categories :

Strategic Risk

This involves analysing and evaluating the effect of competition, customer changes, industry changes, global expansion, potential mergers and acquisitions, product mix, markets and locations of operations on the business.

Operational Risk

This involves analysing and evaluating the ways in which the organisation achieves its goals and objectives. In other words, you are looking at the daily activities and processes and identifying whether they are still viable or they need improvement. For example, this involves looking at processes, information gathering, analysis & its storage, emergency response procedures, protection against external events such as natural catastrophes and disaster recovery policies.

Financial risk

This involves analysing and identifying the effect of interest rates, inflation rates, foreign exchange rates and the availability of credit on company cash flow, return on investment, credit rating and profitability of operations.

Legal risk

This is risk pertaining to regulation, compliances and lawsuits for an organization. This also involves identifying all the rules and regulations that the organisation is bound to, ensure that they are being followed to avoid paying non-compliance penalties. The starting point could involve looking at your industry standards set by your industry's regulators.

Environmental risk

What is the impact of your organisation's activities on the environment? This involves looking at levels of your carbon footprint, pollution levels (noise, odours and light), environmental compliance in all locations, natural resources damage and ongoing monitoring and management.

Social risk

This looks at your organisation's impact on human beings, both from an internal and external perspective. Areas investigated may include, anti-discrimination policies, safety of products, product reliability and quality, sexual harassment concerns, training and education of employees and hiring and promotion practices. The key is developing and maintaining a

positive relationship with both your internal and external stakeholders.

Making risk management every employee's everyday business:

The process of identifying, analysing, evaluating and managing risks within the organisation should not be solely left in the hands of senior personnel. Although senior management have the overall say in the deciding the destiny of the business, they might not possess all the knowledge about the risks facing the business. Thus they need the input of other management personnel and the employees.

In creating a risk-focused culture, managers should:

Move away from a silo-based thinking of managing risks

This means instead of making say the finance department focus only on financial risks and the IT department on IT risks only, an integrated approach (Enterprise Risk Management) should be pursued. This avoids looking at organisational risks in silos but from a broad perspective. This also promotes co-ordination between various functions of the organisation.

Promote ongoing monitoring and management of risks

Risk management is not a one-off process that is done say once a quarter or twice a year. As the macro-economic environment is always changing, so are the risks to the business. When risk management becomes an everyday business and its importance raised within the organisation, the whole culture is going to change and embrace risk management as a value enabler.

Encourage training and education of employees

Both employees and managers need to be fully equipped and aware of recent developments in risk management. By sending employees on short courses or industry conferences, their knowledge of risk management is refined and they can use that acquired new knowledge for the betterment of the organisation.

How else can managers foster a culture that is risk-focused?

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GlobalRisk Community

BEST PRACTICES FOR MANAGING & PROTECTING CORPORATE REPUTATION

Posted by Deon Binneman on May 3, 2011 at 4:42pm

Deon Binneman

According to Wikipedia, "Best practices can also be defined as the most efficient (least amount of effort) and effective (best results) way of accomplishing a task, based on repeatable procedures that have proven themselves over time for large numbers of people."

There are best practices for identifying and mitigating reputation risk in different types of companies as well as best practices for managing reputation as an asset. Please note that not every environment or every company is the same. Your unique environment may require different configurations in order to provide the best protection results. If you have questions about your environment and would like some guidance on mitigating reputation risk, please contact deonbin@icon.co.za

Like all of the intangible assets whose value has escalated in recent years (other examples are talent, knowledge, know-how and intellectual property), reputation has often been overlooked by organisations because it is so difficult to comprehend.

It is only when a reputation incident severely damages the credibility of an organisation or one of its brands, or its standing in the eyes of its stakeholders, that the potentially catastrophic consequences of not managing the crisis properly become apparent.

Studies of organisations that have handled crises affecting their reputation badly have identified long term and irreparable damage to share price, market share and brand value. Many organisations make the mistake of assuming that all that is needed is media training and crisis planning. However, a reputation crisis exposes to public and media scrutiny not only the organisation's competence at crisis handling, but the values, standards and shortcomings that existed beforehand.

The reputation best practice strategy should, therefore, have two simple objectives - to prevent the causes that could damage your reputation, and to minimise the impact if, despite your best endeavours, a reputation crisis should occur.

Here is a partial list of some of the best practices to consider:

- Develop ways to understand the nature of your reputation

- Design & develop a reputation risk management strategy that can act as a roadmap for strengthening risk management in particularly vulnerable areas

- Work together with PR, Risk and Compliance departments to close gaps

- Develop standards and controls for the action that the strategy places most importance on

- Learn how to proactively manage elements of reputations - Provide reputation management training, education and communication to obtain the vital support and commitment of your employees and managers

- Design analysis and monitoring mechanisms to provide early warning of problems or crises

- Develop a process of continuous crisis assessment

- Conduct regular crisis planning and testing

- Ensure regular reporting and monitoring of reputation risk, including incident analysis, issue management, environmental forecasting and online reputation monitoring.

Some organisations have attempted part of this best practices process themselves, particularly the first few

stages. In my experience, they are severely disadvantaged by being too close to the issues, or by risking avoiding taboo or politically difficult areas, or by not challenging assumptions vigorously or objectively enough.

If you would like to learn more about best practices in building, managing and protecting corporate reputation, why not get me to run one of our learning interventions internally? e-mail reputationeducation@icon.co.za

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