

Risk management is everybody's business

A successful strategy is essential in business, but how can you ensure staff are singing from the same song sheet?

PICTURE THE FOLLOWING: a risk manager on the phone with a branch manager. The reason for the call? The branch's quarterly risk assessment update is overdue. Again. The branch manager says all the right things and promises to complete the update quickly. After the conversation, both people have very different thoughts. The risk manager is thinking: "Why do I have to call these managers every quarter? They're not taking this seriously." The branch manager is thinking: "Why won't these people leave me alone to do my job? Haven't we just done this? This process is a pain."

Sound familiar? Chances are, no matter how strong your risk management program, improvements can be made to the process and the interdepartmental relationships.

Every business wants a successful risk management program, but not everyone has found the same level of success. Talk of removing silos and embedding governance, risk and compliance processes within the business lines is great, but making it a reality forces companies to face a major challenge – the relationship between the risk, audit and compliance professionals and the other business unit leaders and staff. Too often, the risk team believes that the field isn't taking them seriously, and the field views the risk team as an annoyance at best, or an impediment at worst. How do you bridge that gap and develop the right levels of communication and trust?

Two-tiered approach

Organisations that have developed successful risk management programs share two strategies:

firstly, the creation of a strong, risk-aware corporate culture and the ability to relate risk issues to everyday business through a straightforward and repeatable process. The cultural change has been discussed in many other forums, but that does not diminish the importance of both top-down and bottom-up buy-in. Executives need to lead by example, and business units need to realise that risk functions are a key part of their daily activity, not a nuisance to be set aside or hurried through.

The second strategy tends to be overlooked, in that many risk professionals view risk issues in and of themselves, rather than in the context of the organisation's larger goals. On one level, this is understandable – a constantly evolving, relatively new discipline requires narrow focus to become established.

However, this narrow view has the unwanted effect of making the risk team appear to be aligned differently from the rest of the business. You need to bridge this gap. The benefit arises not only from ensuring that everyone is on the same page, but also by instilling a belief across the organisation that when circumstances change, teams are capable of adjusting to ensure continued understanding.

There are several ways to ensure that central risk teams are translating risk concepts to get better response from the business units. It can be very easy to focus risk management efforts solely on prevention or avoiding past mistakes – the trick is to learn those lessons and apply them to the present and the future. Ensuring



Goal: clear vision of strategy and planning is vital

that individual business units understand their levels of risk tolerance will allow decisions to be made about pursuing opportunities that can help attain specific objectives.

One team, one goal

Using assessment software that clearly and easily aligns processes with the organisation's objectives is a must. To maximise the co-operation of the market-facing staff, the software should be easy to use and display only the information and tasks pertinent to a specific user. Providing a natural user experience will lead to more timely responses and less handholding, so everyone can focus on the data rather than the process.

The risk team can also help by quantifying not just the exposure but also the upside associated with a risk activity. Showing a business unit that there is limited or no upside to a risk helps the risk manager make a far more compelling case about changing behaviours or assigning resources to mitigate a risk.

Conversely, if the risk manager can quantify opportunities, risk functions will gain broader acceptance as a fundamental part of each business unit.

Either way, better information will be produced, analysed and acted on more efficiently. Both sides will understand that they are working toward the same goal – the success of the company.

Tom Bolger is VP at Methodware, a world-leading provider of risk, compliance and audit software headquartered in London

Protect yourself in the battlefield of business

Inadequate or cumbersome risk management can be damaging to your business, so how can you find the right balance of control?

BUYING A SUIT of armour was a difficult decision for knights of yore. It had to be strong enough to withstand attacks by anything from a poniard to a battleaxe but light enough for the knight to be able to fight back. Plus, of course, armour was crippling expensive and the knight had to leave some money over to pay for his horse, squire and all his retainers.

Today's corporate warriors are discovering they face the same compromise when it comes to risk management. Failure to invest in adequate processes and systems will result in disaster sooner or later, but install an unnecessarily strong system of checks and the operation may become too slow and costly to be competitive.

It is essential for managers to understand the controls they are imposing on the company's processes, and the impact each control has on the risk level. It is also important to set the risk level to an acceptable level, says Giles Triffitt, director of risk consulting at KPMG.

"Unless you have a full understanding of the controls, you can't be sure you are managing the risks," he says. "You may not be managing the right risks anyway because that transparency just isn't there."

The problem is particularly acute in established systems where controls have been added piecemeal over the years. "We have seen – particularly in highly regulated businesses – a layering effect with control on control, which tends to mask whether the risk management is cost efficient," Triffitt says. "Unless you know how much you are spending in

proportion to the risk you are managing, it could be an extremely inefficient equation."

Understanding the controls allows you to classify them into essential controls, which are often imposed by regulatory bodies, and non-essential or local controls that are there to provide



Effective process: slash costs and operation times

the company with the level of exposure to risk that it feels comfortable with. "If you do a proper analysis and understand the risk, some of these local controls can be entirely removed, many downsized" Triffitt points out. "You can also reduce costs by automating some of the expensive manual controls or changing where they are in the process."

Analysis of the process flow should expose where the risks are and where the controls are applied, allowing them to be aligned. "Some checks might be done several times in the process – perhaps a thorough, automated check could be done upfront, but done once," Triffitt says.

Once the controls have been placed so they manage risk effectively, the risk level itself can be adjusted with confidence. In many cases, Triffitt has found that risk levels have been set so conservatively that procedures that should be routine are bogged down in checks and counterchecks.

"Staff are often nervous to challenge the value a control might add because of the possible come back days, weeks and months later if a loss occurs on their watch. However, it is right to challenge a zero tolerance approach to control when it does not add value."

Risk management is often seen as a drag on business, but correctly engineering a process can slash costs and create a more efficient operation at the same time, Triffitt believes. "You can design the controls for maximum effectiveness and to be more cost efficient. It is a process design thing

as much as a risk management thing. Bringing together the cost reduction challenge with the risk management challenge leads to great value," he says.

Many repetitive procedures in the financial sector accrete controls that seemed a good idea at the time but now are either ineffective or outdated, but nobody wants to remove them because 'they

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must be there for a purpose'. "In some of the processes I have looked at, some 40 to 50 per cent of the cost is broadly 'control', especially in the operations of financial services. This in itself may not be wrong," Triffitt says, "but equally I have found that a case can be made to remove a large proportion of this cost (often up to half) based on proper analysis".

Decision-making in life is often influenced by prejudices. Risk management is no different. Recent losses often incur a disproportionate control response. Over time these prejudices fade with corporate memory and the decisions can be unpicked and challenged.