EMBEDDING RISK MANAGEMENT IN ORGANISATIONAL PROCESSES
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ABSTRACT

Risk Management is critical in the way modern business is operated because of dynamic business environment businesses are operating in. It is not only a requirement under several voluntary codes and statutes, but is also makes business sense to identify the probability of not achieving strategic and business goals, hence risk management. Risk management has to be embedded in business processes to ensure that it is being practiced and made part of the culture of the organisation. The embedding should cover all areas of management from strategic to operational level. We need to look at what areas we need to look at to ensure that this risk management is appropriately embedded at all levels. Risk management processes needs to be reviewed regularly and we need to know what areas need to be reviewed. Lastly we need to be informed by key success factors if the exercise of embedding has been successful. If Risk management is not embedded, it will not become part of the organisation, and your company will simply follow the funeral route of the likes of Worldcom which had implemented risk management processes but failed all the same.

In this paper we are providing tips on how embedding can be done at all levels as well as the review processes in very simple and implementable terms which will ensure that risk management runs as integral part of business planning and decision making.

The key words are Risk appetite, Risk culture, Risk embedding, Risk management Infrastructure, Risk awareness.
IMPORTANCE OF RISK MANAGEMENT

Risk Management is a critical part of good corporate governance. King 2 stresses the need for a documented system of risk management. The key requirement according to King 2 is that the organisation should demonstrate that all its significant risks are being managed in a way that enhances stakeholders’ interests. Clause 417 of the British Companies Act requires the business review in the annual report to incorporate a ‘description of principal risk and uncertainties. The Combined Code states that risk management should be systematic and be embedded in company procedures, and directors should, at least annually, conduct a review of the effectiveness of the system of internal control and should report to shareholders that they have done so. The review should cover all controls, including financial, operational and compliance controls and risk management.

The importance of risk management goes beyond the fact that it is compliance with the corporate governance; it makes business sense to implement and embed risk management in the way an organisation does its business. We are living in an era that the only certainty is change itself. Meeting strategic and operational goals has become very close to the result obtained by throwing a dice. In just a recent period of time we have seen corporate failures, economic challenges in tiger economies, and now the credit crunch, and environmental challenges. The uncertainty is causing coldness down the spines of investors hence a need to be more ‘scientific’ in the identification, measurement and mitigation of risks inherent in this ever ‘mutating’ environment.

WHAT EMBEDDING MEANS

Embedding means, making it a natural part of; and therefore embedding risk management would be, making risk management an integral or natural part of the organizational processes.

Where risk management is embedded, risk management becomes intrinsic part of business planning and decision making; there is no direction taken without looking at potential risks and comparing them against the organizational risk appetite. Processes at all levels of an organisation: strategic, tactical and operational need to embed risk management. The embedding should be from the design to implementation.

At the design of business processes, it is important to identify the potential risks involved in the way activities (processes) will be handled, measure and decide on the way the risks would be mitigated. Electronic Commerce processes would be an easier example, as e-commerce platform is prey to hackers, hence the design of the processes would require fire walls implementation etc. Whatever the process the identification, measurement and management of potential risks is critical, and employees need to see this not as a delay but as necessary integral part of the process. Process review will also necessitate assessment of the adequacy, the effectiveness and the efficiency of risk management elements of the process itself.
BENEFITS OF EMBEDDING RISK MANAGEMENT

Embedding risk management in the processes increases the likelihood of achieving business objectives. It ensures support of all employees and board on risk management processes. Embedding risk leads to a desired risk culture. The management will spend less time in ‘fire fighting’ as there will be very few occurrences of such, thus for this reason there will be fewer undesirable surprises and lower cost of risk management.

RISK MANAGEMENT INFRASTRUCTURE

Risk management will be embedded successfully only if the organisation has the right People, Processes, Technology and Culture. The people are made ‘right’ if there is proper training given to them and they have the ‘buy-in’ of risk management processes. The right technology is that which collects data and provide the necessary management and strategic information to enable risk management. The processes should be reviewed as to their sufficient coverage of risk management, and secondly if they are necessary in the risk management process. There may be a need to replace traditional business processes and structures with those structures and processes that better manage risk. The common board process of checking budgets may be replaced by risk reporting, Risk Committee of Board established, Risk department set up etc The risk management culture should be part of the ‘new way’ things are done here’.

TIPS ON RISK EMBEDDING

Embedding risk management at the strategic level:

- The Board should champion the process of risk management;
- Corporate and Business strategies must be aligned to risk management process; articulating and communicating organisation’s risk management attitude and philosophy in mission statement and strategic objectives;
- Organisation wide approach should be implemented;
- A Board committee, usually the Risk Committee should have an oversight over the risk processes;
- A facilitating executive, Chief Risk Officer, should coordinate the risk management function;
- The Risk Register should be continually be reviewed and made relevant to environmental changes and the organisation’s risk appetite;
- Decision making at Board level should embrace risk management e.g. the Board papers should discuss risk implications for proposal made to Board for its decisions. Risk management should be part of the way business is done in the organisation;
- Board induction should include risk management training and awareness of all risks including those specific to industry and the organisation;
- Board Performance evaluation should include attitude towards risk;
- Internal Audit and External audits should review the implementation of risk management strategy.
Embedding risk management at the tactical level:

- The implementation and review of functional plans should embody risk management e.g. identification and management of technological risks by the Information Technology department, complying with labour laws in recruitment and termination of jobs etc;
- Complying with risk policies e.g. insurance of insurable assets;
- Employment of internal and external benchmarking and assess feedback information;
- Assessment of performance against set targets and analysis of the variances;
- Ongoing training of departmental heads and sectional supervisors on risk management;
- Departmental reporting which includes risk reporting; Departments’ performance should include their identification and management of their risks, every department head must play the role of a risk manager in his/her department;
- Concentrate on event risk based thinking (not control risk based thinking).

Embedding risk management at the operational level:

- Ensure that all procedures cover issues on reporting exceptional issue;
- Ensure that tasks and procedures cover risk issues such as safety and health;
- Ensure that job descriptions include risk issues such as safety of the job incumbent and fellow workers. Risk management responsibilities should be part of the performance appraisals and role profiles;
- Make sure that risk notices are made at all areas where exposure to risk may occur e.g. disclaimer for liability at parking lots, notice for slippery ground etc;
- Execute ongoing training programmes to all staff on importance of risk management and risk processes in operation.

REFREEZING RISK CULTURE

Culture clarifies the kind of behavior acceptable in an organisation. Some of the companies that faced failure e.g. Enron, Worldcom, etc have single-handedly elevated risk management, ethics and corporate governance to the top of the board’s agenda. The corporate failures occurred mainly because the written principles were simply like the good gospel preached and not practiced. Other directors may claim ignorance, however that would not exonerate them in the courts of law. The directors would rely in practical and effective controls, and culture control is reliable and effective, hence appropriate culture must be instilled in the organisation. The responsibility for refreezing the desired Culture of risk management starts from the Board, this responsibility must continue to drive risk management approaches, despite the fact that in today’s corporate world – driven by Sarbanes-Oxley and other regulatory requirements – much of risk management focuses on compliance and ‘box ticking’. Boards and senior management teams need to understand the benefits of a sound framework of corporate governance and a robust risk management ethos to ensure that the right culture.
permeates the business. It is the board’s responsibility to make sure that the right culture exists at all levels in the organisation.

**REVIEW OF RISK PROCESSES**

Risk management processes need annual review, and the same must be subjected to internal and external audit review. The process be reviewed to ensure that it continues to:

- cover all the important areas of business risks;
- be simple and understandable to all involved;
- aligned to strategic changes in the business and its environment;
- be part of the business culture in the organisation;
- be in line with assurance recommendations from internal and external auditors;
- embrace the developments in corporate governance, law and industry regulations;
- promote rather than inhibit business and competitive advantage;
- encompass the lessons learnt from post implementation.

Risk appetite and policies will need to be continually reviewed for their relevance as the risk management gets to be more understood and embedded in the culture of the organisation. The speed of the development of the people must be in concert with the way risk is managed in the organisation. If the people feel that risk processes are not helping them to stretch their abilities and business acumen they will ignore the system, and what will remain is the two systems, one in books and the one in practice, and that is a risk in itself. A common language of risk management must be developed and communicated effectively across the organisation.

**KEY SUCCESS FACTORS**

In conclusion, the following factors may determine success of effective risk management embedding process:

- Support of Board and Senior Management Team – Members ask the right questions in regard to risk implications of planning and decision making, and require that papers presented for all proposals embody risk implication, well estimated with mitigating strategies, and all strategic and operational goals are linked to appropriate risk management;
- Everyone in the company is risk aware, and everyone recognizes his/her responsibility for risk;
- There are structures to support risk management e.g. risk department;
- All departments own risk management and only seek guidance from specialist departments such as risk management, internal audit and internal audit etc;
- Risk management processes are understood by all (simplicity)

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