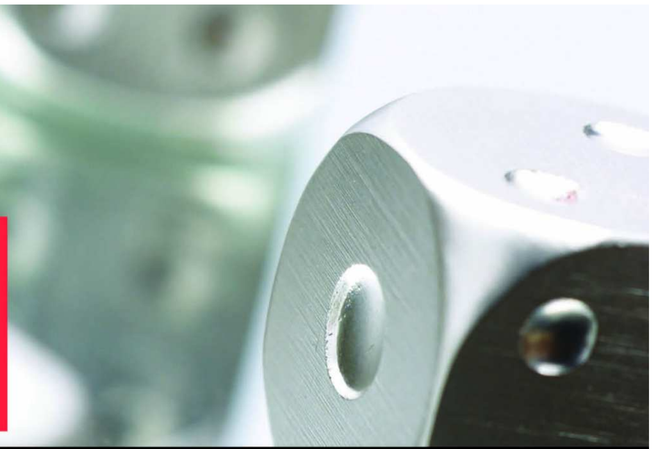

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Driving growth through effective risk management: getting the risk culture, technology and people right to deliver growth

Emma Price *ACTIVE RISK*

Businesses facing uncertain times are increasingly looking to the risk management function to help identify critical risks and propose mitigation strategies to enable sustainable growth, while adding value to the business. Organisations are also maturing in their approach to risk management, and risk is gaining a voice at senior levels.

This article focuses on the three key components of effective risk management:

- the importance of an embedded risk management culture;
- using the right technology for integrated risk management; and
- the characteristics of a great risk manager.

Embedding a risk management culture from the top down

For any risk management process to succeed, an organisation's senior management plays a vital role. Without the right risk culture policies, the processes and performance of risk management will run into difficulties. With enterprises facing increasing numbers of regulations, it is even more important for the board of directors to take a leading role in defining and overseeing an organisation's risk culture and its attitude to risk. Board members need to be confident that individuals at all levels are behaving in a way that reflects the organisation's approach to risk and its management.

A risk culture set from the top influences the decisions made by everyone within a business. A prime example of this is the global financial crisis that the world recently experienced. Excessive risk-taking behaviour resulted on occasion in monetary gains within financial institutions. However, the Risk and Insurance Management Society, Inc stated that the crisis was the result of three key elements around risk culture. These were:

- a system-wide failure to embrace appropriate enterprise risk management behaviours;
- an apparent failure to develop and reward international risk management competencies; and
- a failure to use enterprise risk management to inform management's decision making for both risk-taking and risk-avoiding decisions.[1]

"The way we do things round here"

Setting, communicating and embedding the right risk management culture has a significant impact on how employees perceive "the way we do things round here" and how they action all aspects of the risk management process — including the open communication of risk information, which ultimately leads to informed decision making.

It is common practice for organisations to try and control behaviours through the development of processes, as it is perceived to be the quickest and easiest way to change cultural traditions. However, people will be people and, even if they know the procedures and behaviours expected of them, they may not act in the way required if it does not agree with their personal beliefs and values.

So how can boards help ensure that the required risk management culture is encouraged?

There are three areas where boards can drive specific activities and behaviours that will impact risk culture.

- Clear information must be provided to set employee expectations around risk management activities. Regular and frequent communications should address topics such as why risk management is important for the organisation and for the individual, what risk management activities are taking place, and how the risk process works. Having an integrated, enterprise-wide risk management software system, such as Active Risk Manager (ARM), assists by providing a centralised repository for all risk data. This enables everyone to become involved, rather than working in silos with a mix of individual spreadsheets and departmental solutions.

- The right tools must be provided to support the required behaviours, such as training and resources (finance, human resources and IT). Risk management should be respected as a profession with a recognised career path in the business.
- Incentives and sanctions must be provided. This includes linking risk management behaviours to performance objectives that are themselves linked to remuneration targets and investment funding for projects.

Lead from the front

The single most important factor in embedding an enterprise risk management culture in an organisation is setting the tone at board level. Board members should be fully aware of how they and their colleagues react to and participate in the risk process. For example, the importance of risk should be reflected in the resources made available to risk activities and the attitude towards risk personnel. Senior risk managers should have access and direct lines of communication with senior management as required, and to the risk committee or the board of directors where necessary.

Embedding a risk management culture is not an instant solution — it requires changing the behaviour, beliefs and values of employees. It means making a clear connection in the minds of everyone involved that the success of risk management drives the success of the organisation, and also helps each of them to meet their own personal objectives. It means changing "the way we do things round here", so that talking and thinking about risk become a part of the organisation's DNA. The executive team plays a vital role in leading by example to develop this culture by setting the "tone from the top", both in actions and through effective communication facilitated by an integrated enterprise-wide risk management system.

Spreadsheets are not enough

Traditionally, risk management has been seen as the preserve of the risk department. It therefore was typically carried out using paper-based or spreadsheet risk solutions. Seen in the past as a cost to the business, proactive risk management is now starting to be considered as a value-adding process when embedded in corporate culture. The evidence is seen in:

- better informed planning and decision making;
- identification and effective exploitation of opportunities;
- more business won and profitability delivered;
- reduced insurance premiums through the proof of effective risk management;
- enhanced credit ratings and reduced cost of borrowing; and
- the ability to identify emerging risks to focus investment on mitigation and to protect reputation and shareholder value.

However, true enterprise risk management can only be delivered via the adoption of a software system that ensures data is comprehensively captured at source, validated, and standardised, so that risks and opportunities can be compared on a like-for-like basis. Such a system helps to embed a risk culture into an organisation. It breaks down silos and reduces the time and effort required to gather and interpret risk information, enabling proactive decisions to be made.

The right enterprise-wide system allows the emphasis to move from risk capture and recording to the real value-adding active management and mitigation of risk. Further benefits are that the risk process becomes more robust, secure and repeatable. Unlike processes based on spreadsheets, a central system creates an automatic audit trail, providing the transparency and certainty required by auditors, credit rating agencies, regulators and non-executive directors.

While some companies continue to rely on spreadsheets to manage risk, the potential difficulties and comparisons are plain to see (table 1).

Table 1: Web-based v spreadsheet approach

Web-based enterprise risk management software approach	**Spreadsheet approach to enterprise risk management**
Consistent capture of data — validated at input	Little or no data entry validation — "garbage in" will be magnified as it progresses up through the business
Sophisticated simulations and probability assessments can be applied to the data	Easy to corrupt formulas and calculations
Data is always up to date and available 24 hours a day	Data is not real time and cannot be guaranteed to be current
Processes become robust and secure	Open to fraud and misrepresentation — data on laptops, CDs and USB sticks can be easily lost or stolen
Full audit trail provides transparency and certainty	Lack of audit trail and difficult to share information across an organisation
Standardised metrics and automated reports streamline the review and handling of risks at all levels of management	The "beautification" of information to manually create presentations for management and the board can introduce errors, costs money, and takes time and resources

A single system provides the "true picture" of risks and opportunities across the business	Information is fragmented and spread throughout the organisation, with the possibility of multiple versions of documents which can become out of synch
Risks can be linked to related information, such as controls, mitigation plans and losses	It is difficult to see the full, integrated process and overall picture
Aids compliance with the growing range of standards, such as ISO 31000, COSO, AS/NZS 4360, SOX and PmBok	Makes compliance to standards difficult to achieve and to demonstrate

Creating a risk management culture with technology

Manual methods and spreadsheet solutions for managing risk have in themselves become a high-risk option. Only a true enterprise risk management solution will capture consistent data, provide a single version of the truth, allow access to real-time trustworthy information 24 hours a day, and provide the reports required to proactively manage risk and opportunities. Technology can move risk management from a cost to the business to a value-adding process, which can make a difference to the bottom line of any organisation or business.

Great risk management needs great risk managers

Active Risk recently commissioned research into the personality traits of today's risk managers. Risk professionals around the word were invited to take part in the research by completing an online confidential psychometric survey. Almost 400 responses have been received so far, spread across geographic regions and a range of industries. All those who responded received a confidential profile report based on their answers to a series of questions.[2] The survey was based on the well-established DISC profiling methodology, which categorises respondents into a range of personality types which have recognised characteristics. The survey results showed that while the majority of respondents have characteristics that conform to the traditional view of risk managers — that is, they must be analytical, cautious, numerate, precise and principled — there are many more dimensions to risk managers than first thought.

The personality traits commonly associated with risk managers fall into the DISC methodology category of *Reactive Introvert*. These characters are viewed as experts, capable of demonstrating strong analytical skills and applying logic and caution to deal with often complex subjects where accuracy and precision are essential. Therefore, it was no surprise that 60% of respondents matched this profile. What was unexpected was that the remaining 40% of risk managers surveyed displayed *Proactive Introversion* (less than 10% of the survey population) or *Proactive Extroversion* (over 30%) as their dominant characteristic.

Proactive Introverts are hard-driving individuals determined to see a project brought to a successful conclusion. These characters are demanding, do not take no for an answer, and sometimes break the rules. Meanwhile, Proactive Extroverts are natural communicators, blessed with social skills and capable of using an endless supply of argument and charm until the task is achieved, but they are also prone to exaggeration. Even more surprising is that half of this "Proactive" group had no predisposition to detailed work, taking them further away from the traditional expectations of risk managers.

To be successful, organisations need to be sure of what they are trying to achieve with risk management and must ensure that they have the right match of individuals or the right team in place to meet current objectives. The traits and skills needed are likely to change over time as organisations become more risk mature and expand the scope of risk projects across the enterprise. The survey revealed that where several individuals from the same company responded, the teams were made up of a blend of the different personality types:

- the archetypal "technicians" (Reactive Introverts) required for the business of accumulating and reporting on risk data;
- the "drivers" (Proactive Introverts) needed to get the job done when embedding risk management into an organisation; and
- the "evangelists" (Proactive Extroverts) to sing the praises of risk management and to communicate the benefits of a risk management culture.

Conclusion

In order for risk management to contribute to sustainable and profitable growth, it is necessary for an organisation to combine an embedded risk management culture with an integrated enterprise-wide system and a blend of the right personalities within the risk management function.

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Footnotes

1. Risk and Insurance Management Society, Inc, *The 2008 Financial Crisis: A Wake-Up Call for Enterprise Risk Management*, 2009, available at http://community.rims.org/RIMS/Upload/f26b1c64-8123-4c96-9c59-83fc43bc99cb.pdf.

2. Risk professionals can still take part in the "What makes a great risk manager?" survey— and receive a confidential personalised profile — by visiting www.activerisk.com/survey.