



The Institute of Risk Management
SOUTH AFRICA



BARNOWL

SELLING RISK MANAGEMENT TO THE BOARD AND EXECUTIVE

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Purpose

- Communicate the value of ERM/GRC to the board and the executive
- Understand the role / expectations of various stakeholders in ERM
- Answer typical queries/objections when it comes to investing in ERM
- Promote the need and importance of a robust ERM process / program and how this may be achieved

Value of Effective Risk Management

More effective strategic and operational planning with alignment of objectives and risks across the organisation

Greater confidence in decision making and achievement of operational and strategic objectives

Greater stakeholder confidence by demonstrating transparency and sustainable capability

Early warning system and visibility and reporting of significant risks to avoid surprises

Proactive management of risk rather than reactive after the event which costs time, money and reputation

Cost effective internal controls and control strategy

Evidence of a structured / formalised approach in decision making

Regulatory compliance and director protection

KING IV

- This philosophy is centred on three paradigm shifts in corporate governance:
 - From financial capitalism to inclusive capitalism
 - From short termism to long term sustainability
 - From silo reporting to integrated reporting?
- The philosophy of King IV is focused around:
 - Ethical and effective leadership
 - Company's role and responsibility in society
 - Corporate citizenship
 - Sustainable development
 - Stakeholder inclusivity and responsiveness
 - Integrated reporting and integrated thinking

KING IV – Risk and Opportunity

- King IV has a strong focus on opportunity management and is proposing a name change from risk committee to risk and opportunity committee.
- The Board should oversee the adequacy and effectiveness of risk and opportunity management and this should focus on the organisation's resilience to withstand vulnerabilities including recovery plans
- The governing body should delegate to management for implementing policy on enterprise-wide risk and opportunity management and for embedding it in the day-to-day, medium and long-term decision making activities and culture of the organisation
- Nature and extent of risk and opportunity management should be a dynamic process to be reviewed periodically and in response to changes in the risk for reward analyses
- King IV has emphasised the importance of risk management to assist the company in considering the interdependences of risk.
- King IV is calling for organisations to disclose the processes for managing risk and opportunity, key focus areas, mechanisms for monitoring the effectiveness of risk and opportunity management and how uncertainties have affected performance and future strategies

KING IV – Risk and Opportunity

- Internal audit should provide independent and objective assurance on the adequacy and effectiveness of internal controls and risk and opportunity management.
- King IV recommends that there should be overlap in membership between the audit and risk committee

https://www2.deloitte.com/content/dam/Deloitte/za/Documents/governance-risk-compliance/ZA_King_IV.pdf

Typical Risk Maturity Questions

- Do you have a risk management policy / framework that includes all forms of risk?
- How would you rate the overall buy-in for risk management at the executive and senior levels of your organisation?
- Do you have an internal audit department and how integrated is it?
- What method is used in your organisation to regularly identify and measure risks?
- Do you have a current and up to date inventory of risks for the organisation?
- What are your perceptions of risk management?
- What is your opinion on how risk management has evolved?
- <https://youtu.be/tWu99x-J00I>

Typical Objections to Investing in Risk Management

TYPICAL OBJECTIONS TO INVESTING IN ERM

"We are not convinced of the value of GRC. It's a nice to have and not a necessity. As long as we can tick the box to say that we comply."

RESPONSE

Clem Sunter states in the IRMSA Risk report 2016: "Risk evaluation and management skills are now central to the long-term viability of any organisation". Clem further adds: "Moreover, risk management now constitutes a premier discipline that no organisation can do without. You only have to look at the high-profile and costly examples of companies that recently were devastated by some expensive flaw in their business model being exposed to public scrutiny. What they would have given to have perceived the full extent of the problem in advance and acted on it" You can download the full IRMSA 2016 risk report at http://www.barnowl.co.za/wp-content/uploads/2016/02/IRMSA_2016_Risk_Report_full.pdf as well as see some examples of recent corporate failures at <http://www.barnowl.co.za/insights/6373/>

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“You can’t easily blame a board member for not knowing something,” Grimstone said. “But you can blame a board member for creating a culture where he doesn’t know something.”

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Typical Objections to Investing in Risk Management

"We have a business to run here and don't have time for ERM. It would add work to our day-to-day operations and our resources are already spread thin."

RESPONSE

You may not have a business to run unless you find the time to identify and monitor your risks and make the relevant resources accountable for managing the risks within each of their areas of business.

In reality, everyone is performing risk management activities all the time in their daily lives be it at work or privately (e.g. crossing a street involves risk assessment and decision making). In a team environment however, if there is no formal risk management program, everyone does their own thing which is often counterproductive and creates duplicate effort and re-work.

“ Any member of exco and / or the board should insist on the implementation of robust ERM processes not only to protect the organisation but to protect themselves as well. ”

Typical Objections to Investing in Risk Management

“How would having an ERM / GRC system have prevented non-ethical behaviour, fraud, incidents, loss events etc. from happening?”

RESPONSE

No system will prevent someone from unethical behaviour or fraudulent activities especially those perpetrated at the highest levels of the organisation. However, if there are controls and cross-checks in place which are monitored and supported by systems, the chance of early detection and prevention is far greater thus minimising the impact as well as acting as a deterrent to would-be perpetrators.

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No system will prevent someone from unethical behaviour or fraudulent activities however an effective ERM process will improve the chance of early detection and act as a deterrent.

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Typical Objections to Investing in Risk Management

“We’ve been in business for a long time and know what our risks are. Why do we need a system to tell us what our risks are? We keep track of our risks in Excel.”

RESPONSE

In a medium to large scale organisation, management may know what the top 10 strategic or top 10 operational risks are but with the best intentions in the world won’t always be aware of what is going on ‘below the surface’ and the knock-on effects that exist between interconnected risks, controls, loss events, near misses, regulatory requirements, KPIs and resources which become serious risks to the organisation if not identified, managed and monitored.

“ It’s impossible to see the warning lights or keep track of all risk related activities, and their inter-connectedness without a systematic approach supported by specialised ERM software. ”

Typical Objections to Investing in Risk Management

“Why should we spend more on a software solution when we are already paying a risk / compliance / audit officer/s to manage the risks and generate the relevant risk reports?”

RESPONSE

Did you know that on average, risk managers spend 62% of their time on tactical activities alone rather than strategic activities! Source: Future of Risk Management & Compliance: Global Trends and Perspectives. PRMIA. 2010. In a 40 hour week, that's more than 24 hours spent manipulating spreadsheets, mining data, and building reports! How can GRC professionals be strategic if they are committing more than half their time to finding out which risks they need to manage? And how about the cost? How much does a senior resource cost per hour (CTC (Cost to Company)) to perform administrative and manual Excel work instead of giving strategic input into the organisation?

“ GRC software reduces the administrative burden of ERM and facilitates and embeds risk management at all levels of the organisation ”

Typical Objections to Investing in Risk Management

“We already have too many rules & regulations and systems and now another one?”

RESPONSE

The good news is that an integrated GRC system provides a single system, simplifying and enabling the risk management, compliance, audit and performance management processes.

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A mature ERM program is a safety net

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Organisations have realised 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

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Typical Objections to Investing in Risk Management

“GRC software is a ‘nice to have’, not a need.”

RESPONSE

The notion that ERM software is more of a luxury than a necessity seems to be encompassed above. Board members may have the misconception that investing in enterprise risk management doesn't help a company financially. Executives often believe it would add work, and isn't absolutely necessary to their program. And CROs may recognise the range of software solutions already utilised by the company and ask “Why add one more?”

“ Focusing on strategic / high level risk alone is ineffective because of the gap between senior management and the front line activity level where risks first arise.

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Conclusion: King IV Definition of Corporate Governance

Corporate governance, for the purposes of King IV, is about the exercise of ethical and effective leadership by the governing body.

Such leadership includes four *overarching responsibilities of the governing body*: (i) providing strategic direction; (ii) approving policy to put strategy into effect; (iii) providing informed oversight of implementation and performance and (iv) disclosing.

Ethical and effective leadership should result in the following beneficial *governance outcomes* for the organisation: (i) an ethical culture; (ii) sustainable performance and value-creation; (iii) adequate and effective control by the governing body, and; (iv) protecting and building trust in the organisation, its reputation and legitimacy.



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Thank You

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