

Embedding Risk Management

Robert Likhang
FCIBM, FCIS, ACMA, CA(L)

Presenter

- ▶ Head of Chartered Institute of Public Finance and Accountancy (CIPFA) at the Centre for Accounting Studies (CAS) Lesotho
- ▶ Lecturing Corporate Governance & Strategy – Chartered Accountancy programme Lesotho
- ▶ Financial & Management Consultant
- ▶ Board member: Institute of Chartered Secretaries & Administrators (Southern Africa), Lesotho Institute of Accountants etc
- ▶ Previous on boards and executive positions in the corporate sector in Lesotho

Presentation Plan

- ▶ Importance of Risk Management
- ▶ Defining Embedding
- ▶ Benefits of Embedding Risk Management
- ▶ Risk Management Infrastructure
- ▶ Embedding Risk at different levels
- ▶ Refreezing embedded risk culture
- ▶ Review of Risk Processes
- ▶ Key Success Factors

Importance of Risk Management –Conformance

- ▶ King 2 stresses the need for documented system of risk management, and that the organisation should demonstrate that all its significant risks are being managed;
- ▶ Clause 417 of British Companies Act require that the Business Review in the Annual Report should incorporate description of principal risks and uncertainties;
- ▶ Combined Code states that risk management should be systematic and be embedded in the company procedures.

Importance of Risk Management –Performance

- ▶ Business environment is fluid – *the only certainty is change itself*. The business environment is subset of the macro environmental factors (PESTEL) whose change in recent times has been unprecedented (e.g. major corporate failures, changes in laws, challenges of the tiger economies, now the credit crunch etc)
- ▶ The goal posts keep on moving making it difficult to hit the strategic or operational goals, hence a need to manage the risk to minimize the undesirable impact.
- ▶ Investor confidence needs to be improved despite mutating environment hence need for better risk management.

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 organisational processes and procedures;
- ▶ 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 organisational risk appetite.

What embedding means

- ▶ Embedding should be done at all levels (strategic, tactical and operational)
- ▶ Embedding means incorporating risk management from the design of the processes to the execution of the processes
- ▶ Risk management should be seen and understood in the organisation as a value enhancing
- ▶ Process Review should include how risk is identified, measured and managed as part of process execution (effectiveness, efficiency)

Benefits of Embedding Risk Management

- ▶ Embedding risk management increases the likelihood of achieving business objectives;
- ▶ Embedding ensures support of all employees and the board on risk management processes;
- ▶ Embedding risk leads to desired culture (less time is spend on 'fire fighting' hence fewer undesirable surprises and hence lower cost of risk management

Risk Management Infrastructure

- ▶ Risk Management will be embedded successfully if the organisation has the right People, Processes, Technology and Culture.
- ▶ People are made right by proper training, and are made to 'buy in' of the risk management processes by continual involvement in the design and review of processes.
- ▶ Technology that is right is that which provides risk management information for control, planning and decision making

Risk Management Infrastructure

- ▶ Processes of risk management be made to effective and efficient; secondly the business processes must be designed in such a way as to address risk management issues, thirdly traditional processes which have little reflection or risk management have to be reviewed even replaced e.g. budgetary emphasis to risk reporting emphasis, Risk committee be established;
- ▶ Culture of risk management be part of the 'new way' things are done.

Embedding risk at all levels

- ▶ Risk management should not be a matter for strategic level, but should cut across at all levels of management from strategic to tactical to operational;
- ▶ All employees in whatever area of operation and in whatever activity, their processes and procedures should embody risk management

Embedding risk at strategic level

- ▶ The Board should champion the process of risk management;
- ▶ Corporate and Business strategies must be aligned to management processes; articulating and communicating organisation's risk management attitude and philosophy in mission statement and strategic objectives
- ▶ An enterprise wide approach should be implemented

Embedding at strategic level

- ▶ 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;
- ▶ Risk Register should continually be reviewed and made relevant to environmental changes and organisation's risk appetite;

Embedding at strategic level

- ▶ 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 the industry and the organisation;

Embedding at strategic level

- ▶ Board performance evaluation should include attitude towards risk;
- ▶ Internal Audit and External Audit should review the implementation of risk management strategy

Embedding at Tactical level

- ▶ The implementation and review of functional plans should embody risk management e.g. identification and management of technological risks by I.T department; H.R department checking compliance with labour laws in recruitment and termination of jobs etc;
- ▶ Complying with risk policies e.g. insurance of insurable assets;

Embedding at tactical level

- ▶ Employment of internal and external benchmarking and assessing feedback information;
- ▶ Assessment of performance against set targets and analysis of variances;
- ▶ Ongoing training of departmental heads on risk management;
- ▶ Departmental reporting which includes risk reporting.

Embedding at operational level

- ▶ Ensure that all procedures cover issues on reporting exceptional issues;
- ▶ Ensure that tasks and procedures cover risk issues such as safety and health;
- ▶ Ensure that job descriptions include risk issues
- ▶ Make sure that risk warnings and disclaimers are made at all areas where there is potential risk
- ▶ Execute ongoing training programmes to all staff on risk management and risk processes in place

Refreezing embedded risk culture

- ▶ Culture clarifies the kind of behaviour acceptable in an organisation.
- ▶ Single-handedly elevating ethics, corporate governance to the top board's agenda is not sufficient if the desired culture is not part of the air people breathe in the organisation e.g. Enron, Worldcom etc
- ▶ Risk management should not be mere 'box ticking' but the Board should put processes in place to ensure that risk management ethos permeate at all levels
- ▶ New signs, new warning colours, new myths/stories, new reports emphasizing risk (culture web) etc should be the order of the new day

Review of Risk Processes

- ▶ Annually the risk processes need review with the view that it continues to:
 - Cover all the important areas of business risks;
 - Be simple and understandable to all involved;
 - Be aligned to strategic changes;
 - Be in line with recommendations of auditors;
 - Be embracing development in corporate governance (practice, laws, regulations etc);
 - Promote rather than inhibit business and competitive advantage;
 - Encompass the lessons learnt from post implementation

Review of Risk Processes

- ▶ Risk appetite and policies will need regular review
- ▶ The risk management system must be in line with the speed of development of the people. If the people feel that risk processes are not helping them to stretch their abilities and business acumen, they will ignore the system;
- ▶ A common language of risk management must be developed and communicated effectively across the organisation.

Key Success Factors in embedding risk management

- ▶ Support of Board and senior management team;
- ▶ Risk awareness cuts across all levels and is part of the culture of the organisation;
- ▶ There are structures to support risk management e.g. Risk Department;
- ▶ All departments own risk management processes;
- ▶ Risk management processes are well understood and accepted by all (simplicity).

Kea Leboha, Ngiya Bonga, Thank you, Dankie

- ▶ Robert Likhang
- ▶ Tel (+266) 2231 4257
- ▶ Cell (+266) 5802 1023
- ▶ E-mail: robert@cas.ac.ls or
robert.likhang@leo.co.ls