

ENTERPRISE RISK MANAGEMENT

Protecht's David Tattam explains how to move from a siloed approach towards enterprise wide-risk management

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nterprise risk management is our holy grail,” says David Tattam, Chief Research and Content Officer at the Protecht Group. “It’s a topic very close to my heart and has been for probably close to 25 years now.”

While David is based in Sydney, Australia, Protecht has operations in London and the US, focused on implementing enterprise risk management through the areas of people capability (Protecht Academy), automation

(Protecht ERM), customer system implementation and support (Protecht Advisory) and risk management consulting (Protecht Consulting).

Enterprise risk management is an integrated and linked approach to managing all risk types across an organisation and its extended networks. David explains: “It covers

all the types of risk, regardless of what it is, in as consistent manner as possible. There are some specialties and nuances around various risks – different legislative requirements, obligations and lingo – but, by and large, risk is risk is risk.

“Enterprise risk management covers all material activities across your organisation – your divisions, your activities, your business units – and all the different types of risk, regardless of what they are, enterprise wide. It is also integrated, as opposed to a siloed approach where you might

have risk specialists in health and safety, cybersecurity and fraud management. With enterprise risk management, all risk information is linked and integrated under a common dimension, whether that be a risk event,

“**WITH ENTERPRISE RISK MANAGEMENT, ALL RISK INFORMATION IS LINKED AND INTEGRATED**”



David Tattam

a risk cause, a type of control, or compliance obligation.

“Very importantly, it is top to bottom and bottom to top, macro and micro risk management. It needs to provide the board with an aggregated view of all the risks across the organisation, with the ability to drill down and manage each risk at a granular level, at the coalface. Effective enterprise risk management makes it a lot easier for the organisation to manage its risks in a consistent fashion.”

CONSIDER YOUR OWN ORGANISATION

David challenges us to consider whether our own risk management approach is siloed or managed enterprise wide. “Is it completely siloed, with each risk discipline pretty much doing their own thing with different systems? Is it mainly siloed, with a bit of enterprise wide to consolidate information to the board? Partially siloed or mainly enterprise wide with maybe a couple of specialisms? Or is it fully enterprise wide, with all risk managed in a consistent framework manner through processes and systems?”

“What we traditionally see is that once an organisation realises the benefits of an



coffee in an old camping mug, they will drop it rather than hurting their hand. They don't see the value of hanging on to it. But if you give someone their favourite coffee in a valuable mug, they are likely to hold on through the pain. "The return has got to be greater than the pain or the investment. Risk management is like a hot cup of coffee. When you hand it to someone in your organisation, there is pain (time, cost, etc.) but you must demonstrate that the end value of the investment is worth it."

"You have to redefine the way that your people think about risk," explains David. "That is the first step towards enterprise risk management – get your people behind you, particularly those at the top. The second step is to define your risk taxonomy at the central level. The third step is to define a risk appetite statement at board level for all those risks. And the fourth is to build your risk management framework."

RISK AS AN ENabler

enterprise risk management approach, they then go on the journey from bottom to top. There are often some fears that an enterprise-wide approach won't fit the bill at the coalface – it's not specialist enough. So the challenge is, how do you get enterprise-wide risk management while still providing that detailed, correct capability for the people managing risk?"

So, what is the value of enterprise risk management? David says in answering this question, he needs to tackle the "elephant in the room" – the typical perception that people have of risk management. "I often consider the following scenario: you go outside and talk to some of your staff and say the word 'risk' to them. How does it make them feel?"

The typical answers, he says, include 'anxiety', 'fear', an 'uncomfortable feeling', 'loss', 'danger', 'damage', with risk management itself viewed as 'dull' and 'preventative'. "So here we are trying to implement enterprise risk management across an organisation and people don't like risk. To change how we approach risk management, we need to redefine the way people think about risk."

David explains that people respond to incentives through the following analogy. If you give someone a cup of very hot instant

standard that provides principles and guidelines for risk management. It outlines a comprehensive approach to identifying, analysing, evaluating, treating, monitoring and communicating risks across an organisation. "It defines risk as the effect of uncertainty on objectives and the most important word there is 'objectives,'" says David. "So, risk management is managing the effect of uncertainty on objectives. Managing risk is not an end, it's a means to an end. For me, risk management should be called 'objectives management' or 'outcomes management', changing the language from hindrance to enabler."

The key, says David, is to make sure that all your risk management activity links to your strategy and objectives, demonstrating the improved outcomes that will follow from effective risk management. "If people see that outcome management controls are enablers, not hindrances, we can redefine the way that our people will think about risk. And that will provide the incentive and the motivation to want to be involved."

Most of us will be in roles responsible for ensuring that our people are healthy and safe at work, along with protecting our organisation's reputation and financial stability. However, risk management also allows us to pursue innovation and new opportunities. David explains: "When I arrived in Australia, I took up the sport of hang gliding, which is incredibly, inherently risky. I put a huge number of controls in place so that I was comfortable with the level of risk. And because of those controls, I've enjoyed that sport and I'm still here. When I put the parachute on, I don't think 'I hope this opens' or 'I hope I don't have to use it'. I think, 'Now I can have some fun, pushing my limits to 14,000 feet'. Knowing that I've got my safety net enables me to achieve my objectives to go higher and faster."

At the heart of enterprise risk management is the process of identifying, analysing and understanding your key business risks and their related controls, to evaluate those against your risk appetite and the desired risk levels, and to see if you need to make any improvements.

Continued overleaf >>

Risk management

>> From previous page

Figure 1

1. Communication and consultation
Stakeholders
2. Scope, context and criteria
 - Strategy and objectives
 - Critical processes and projects
 - Risk appetite
- Risk assessment**
3. Risk identification
4. Risk analysis
5. Risk evaluation
6. Risk treatment - including controls
7. Monitoring and review
8. Recording and reporting

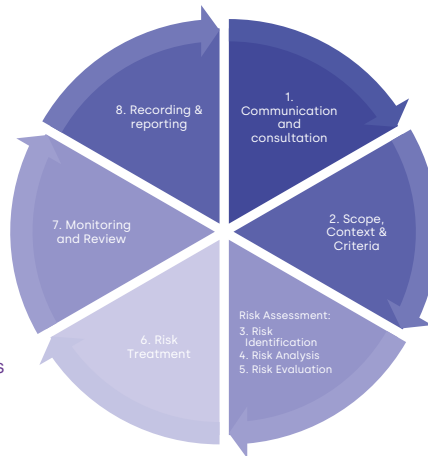


Figure 2

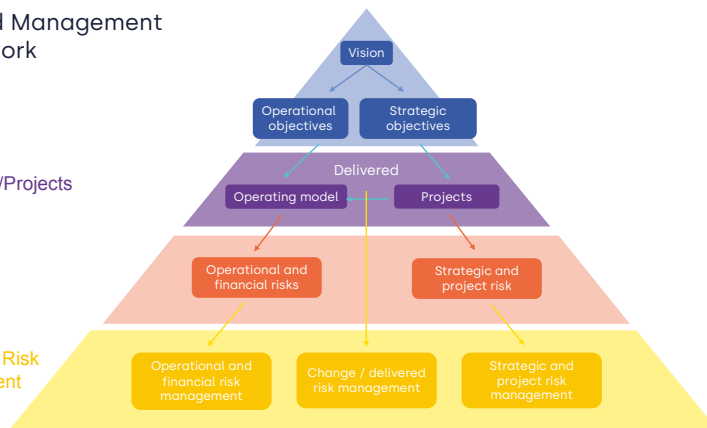
Risk and Management Framework

Outcomes

Processes/Projects

Risks

Enterprise Risk Management



David outlines the eight key steps of the ISO 31000 risk management standard that can be applied to any risk, starting with the external view, and the scope, context and criteria, which “anchors everything to strategy and objectives” (figure 1).

Represented as a risk management framework, David explains that enterprise risk management is the foundation, taking its place at the bottom of a pyramid, with an organisation’s outcomes – its vision, operational and strategic objectives – at the top of the pyramid (figure 2).

A key output of enterprise risk management is reporting, providing the information about what is working well and what needs attention, and assisting in better risk-reward decision making. Protecht’s ERM system helps clients collate enterprise-wide information in one place using a common taxonomy for improved risk oversight and reporting, while also providing people in different areas of a business with individual user interfaces.

David says: “People might currently be using a range of systems for risk management, from Excel and Word documents to a dedicated enterprise risk

management system. Many have a range of point solutions because they can’t find an enterprise system that provides the right capability. But things are changing. There are enterprise risk management systems that provide an enterprise-wide view and the dedicated specialist information that serves the purpose at the coalface. It’s a journey risk managers need to consider going on to give the board what it wants together with risk management at the detailed level.”

Everyone is a risk manager in your organisation, insists David. “We want to develop a really strong risk culture across the organisation to make sure everybody is owning their own risks, that they are responsible for those risks, and they have bought into managing them. At Protecht we have a tracking tool for our clients called a Risk Culture Dashboard that tracks the behaviour of their people with respect to the management of risk across the whole organisation.”

Protecht sees the enterprise risk management process as a continuous journey. But for those who want to take steps towards a more enterprise-wide approach to managing risk, David suggests first breaking down current risk and organisational silos.

“You’ve got to start talking to each other and seeing that risk is risk. Then you can create a common set of enterprise-wide risks, a common methodology framework and, as far as possible, a common language across all the risk types. You might even find that in doing so, you expand your own career beyond a single specialism, seeing risk management from a wider point of view across the enterprise.” ♥

Protecht’s learning management system, Protecht Academy, offers several courses in enterprise risk management. Find out more at www.protechtgroup.com/en-gb/academy