

**Risk Management MN220:
Seminar 10 & 11
ERM Risk Management**



SHERIDAN COLLEGE

PERTH | WESTERN AUSTRALIA

Seminar 10 & 11.

Enterprise risk management (ERM)

- Enterprise Risk Management (ERM)
- Establishing a risk management culture
- Leadership, management and commitment
- Interdependency between policy, goals, reward and sanction
- Methodologies, processes, and outputs
- Structure
- Consolidation and mapping
- Tools and technology
- Training and development
- Timetable and programme
- Integrating quantitative and qualitative elements of risk management
- Developing the ERM system – case studies



Enterprise risk management¹

*“The process required to establish effective risk management as part of the day-to-day business at an **organisational level** and subsequently at **operational, project or team levels** is likely to require a **change of culture** for many organisations.”¹*

¹AS/NZS 4360:2004, Risk Management

ERM

- Term once frequently used to discuss the management of risk across the enterprise;
- Related to “**whole of business**” rather than individual business process;
- Used less often today as risk management becomes more pervasive across and within the business.

Organisational culture

Organisational culture is shaped by the following²:

- Rules and policies;
- Goals and measures;
- Rewards and recognition;
- Staffing and selection;
- Training and development;
- Ceremonies and events;
- Leadership and behaviour;
- Communications;
- Physical environment;
- Organisational structure.

² Holmes, A., Smart Risk

Enterprise risk management culture

- Senior management must be engaged;
- Risk management needs to be “seen” at all levels of the organisation;
- Training conducted throughout the organisation assists in ERM;
- Success stories need to be “sold;”
- A “champion” or sponsor is required to engender a positive risk management culture;
- Staff need to be supported by management to manage risk.



Response to failure³

Fear of failure	High	Forget	Blame
	Low	Learn	Sanitise
		Forgiving	Unforgiving

Underlying organisational culture

³ Holmes, A., Smart Risk

“Hands up – cover up”

- A “hands up” culture occurs when **fear of failure** is **low** and where the organisation is forgiving;
- A “cover up” culture occurs when **fear of failure** is **high** and where the organisation is unforgiving;
- A “hands up” culture encourages risk taking, whilst managing negative risk.

Leadership and management

- The board needs to be committed to risk management;
- The CEO needs to be committed;
- Commitment needs to be demonstrated by both leadership (doing and saying), and through management (policy, procedures and processes).

Commitment

- Risk management responsibilities need to be allocated;
- Risk Manager or Manager of Risk?
- Build risk into Key Performance Indicators (KPI's).

Methodologies, processes and outputs

AS/NZS ISO 31000:2009

- Risk assessments;
- Risk treatment;
- Risk monitoring;
- Risk reviews/audits;
- Communication and consultation;
- Risk register that is incorporated into strategic and business planning.

Structure

- Risk management committee (for **large** companies);
- **Risk champion** for smaller companies;
- Establish risk into the **board agenda**;
- Establish risk into the **executive committee agenda**;
- Establish risk into the **strategic planning process**;
- Apply **reward and sanction** in embedding risk management;

Consolidation and mapping

- Corporate (enterprise) risk register;
- Division/business unit risk register;
- Branch office risk register;
- Risk register consolidation;
- Risk consequence mapping.

Corporate risk mapping

- Contextualises relative **risk impact** within the business;
- Provides a mechanism for business unit and project risk analysis;
- Reduces “noise” in the corporate risk register;
- Allows lower level common risks to be aggregated and escalated.

Corporate risk mapping⁴

Division Consequences	Enterprise Consequences		Business Unit Consequences	Enterprise Consequences
Catastrophic	Major		Catastrophic	Moderate
Major	Moderate		Major	Minor
Moderate	Minor		Moderate	Insignificant
Minor	Insignificant		Minor	Insignificant
Insignificant	Insignificant		Insignificant	Insignificant

⁴ Moore, P.

Corporate risk mapping

Consequence	Corporate Financial Impact	Divisional Financial Impact	Business Unit Financial Impact
Catastrophic:	> \$10M	>\$500,000	> \$200,000
Major:	\$500,000 -\$10M	\$200,000 - \$500,000	\$100,000 -\$200,000
Moderate:	\$50 000 - \$500,000	\$100,000 - \$200,000	\$50,000 - \$100,000
Minor:	\$5,000 - \$50,000	\$5,000 - \$100,000	\$5,000 - \$50,000
Insignificant:	<\$5,000	<\$5,000	<\$5,000



Corporate risk mapping - examples

Risk : Inadequate insurance

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3 Inadequate insurance

Description Cause/consequence Comments Attachments

Inadequate insurance cover for the business

Sum of Costs

Ctrl Total	Control Cost
0	0.00
Treat. Total	Treat. Cost
1	0.00

Assessment Quantification Corporate Assessment Audit Assessment

Assessment

☒ Relevant

Consequence Likelihood Control Effectiveness Risk Score

Absolute Catastrophic Almost Certain 25

Controlled Moderate Possible Reservations 9

Treated Minor Unlikely 4

Level of Risk Severity

☒ Very High ☐ Acceptable

☒ High ☐ Acceptable

☒ Low ☐ Acceptable

Attributes Additional Information Controls Treatments Findings Loss Events Review Notes Linked Risk Areas Linked Accounts Linked Objectives Linked Processes Tests

Risk Owner Simon High

Risk Status

Review By

Reference

Control Risk Self Assessment

☐ Control RSA

CRSA Status

Audit Assessment

Corporate Assessment

Impact

☒ Environmental

☐ Financial

☐ Public Image

Business Units

Business Unit

Risk Category 2

Risk Category 3

Creator Groups

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Perth office

REVIEW3
3/03/2005

enterprise
risk|assessor

ERA | Reporting | Risk Areas | Objectives | Accounts | Processes | Risks | Controls | Treatments | Action Plans | Loss Events | Tests | Findings | Review Notes



	#	Name	Ctrl Consequence	Ctrl Likelihood	Ctrl Risk Level	Owner	rp Ctrl. Consequence	Corp Ctrl. Risk Level	Ctrl. Risk S
1	14	Failure to develop new client base	Major	Almost Certain	Very High	Sue Stevens	Minor	High	10
2	19	Loss of key personnel	Major	Almost Certain	Very High	John Smith	Minor	High	10
3	10	Poor project management performance	Major	Likely	High	John Smith	Minor	Medium	8
4	20	Dust and noise	Major	Likely	High	Simon High	Minor	Medium	8
5	1	Industrial action	Major	Possible	High	Fred Green	Minor	Medium	6
6	4	Poor design resulting in product failure	Major	Possible	High	Simon High	Minor	Medium	6
7	2	Inadequate sub-contractor agreements	Moderate	Possible	High	John Smith	Insignificant	Low	3
8	3	Inadequate insurance	Moderate	Possible	High	Simon High	Insignificant	Low	3
9	6	Poor supplier delivery timeframes	Moderate	Possible	High	John Smith	Insignificant	Low	3
10	23	Inability to deal with major impact to business	Moderate	Possible	High	John Smith	Insignificant	Low	3
11	8	Use of unskilled equipment operators	Moderate	Unlikely	Medium	Simon High	Insignificant	Low	2
12	13	Increased competition	Moderate	Unlikely	Medium	Stephen Rogers	Insignificant	Low	2
13	15	Inadequate insurance leading to limited products and services	Moderate	Unlikely	Medium	Sue Stevens	Insignificant	Low	2
14	17	Unsafe work environment leading to injuries	Moderate	Unlikely	Medium	Greg Miller	Insignificant	Low	2
15	24	Vandalism to equipment	Moderate	Unlikely	Medium	Steve Jones	Insignificant	Low	2
16	26	Computer hardware failure	Moderate	Unlikely	Medium	Steve Jones	Insignificant	Low	2
17	27	Impact on schedule due to failure of contractor	Moderate	Unlikely	Medium	Sue Stevens	Insignificant	Low	2
18	7	Subcontractor poor performance	Minor	Possible	Medium	Fred Green	Insignificant	Low	3
19	9	Failure to achieve project objectives	Minor	Possible	Medium	Steve Jones	Insignificant	Low	3
20	21	Loss of data (IT failure)	Minor	Possible	Medium	Steve Jones	Insignificant	Low	3
21	25	Fraud or theft	Minor	Possible	Medium	Stephen Rogers	Insignificant	Low	3
22	5	Loss of license	Minor	Unlikely	Low	Tony George	Insignificant	Low	2
23	16	Inadequate scoping of work	Minor	Unlikely	Low	Bill Brown	Insignificant	Low	2
24	18	Inadequate resources	Minor	Unlikely	Low	Greg Miller	Insignificant	Low	2
25	22	Use of outdated technology	Minor	Unlikely	Low	Simon High	Insignificant	Low	2

Risk : 25 of 25. Selection:1

Tools and technology

Managing the information;

Risk management software:

- Proprietary
- Generic (i.e., MS Excel)

Maintaining currency.

Training and development

Training can be carried out at different levels within the organisation:

- Strategic risk management at senior management level;
- Operational risk management at the business process management level;
- Awareness and training for operating personnel.

Timetable and program

- Set **realistic timetable and timeframe**;
- Develop the **program of activities**;
- Ensure **adequate resources** are applied to the program.

Integrating quantitative & qualitative measures

- Develop formal structures and processes;
- Embed risk management into job descriptions for business process owners;
- Implement reward and sanction measures;
- Lead, guide and train personnel in risk management;
- Engage personnel at all levels;
- Adopt a “push-pull” approach to risk management.

Enterprise risk management

*“Enterprise-wide risk management represents a **paradigm shift** in the way businesses **manage the uncertainties** that stand in the way of achieving their **strategic, operational, and financial objectives**.”⁵*

⁵Barton. T., Shenkir, W., Walker, P., Making Enterprise Risk Management Pay Off.

Companies studied⁶

- Chase Manhattan Corporation;
- E.I. du Pont de Nemours and Company;
- Microsoft Corporation;
- **United Grain Growers Limited;**
- Unocal Corporation

⁶Barton. T., Shenkir, W., Walker, P., Making Enterprise Risk Management Pay Off.

United Grain Growers

“The second way I get comfortable (about risk) is the quality and institutionalisation of the controls at the micro level. The credit approval process and the trading monitoring process – we are probably the most vigilant about those two processes, and that’s where I think we have very good systems.”⁶

⁶Barton. T., Shenkir, W., Walker, P., Making Enterprise Risk Management Pay Off.

Unocal Corporation

“(Now we’ve had) an organisational shift to saying, “Look, the only way we’re really going to get our line people to truly embrace safe operations, effective operations, control operations as a part of their job is to take away the crutch of (overreliance on) staff support and, at the same time, go from a compliance-based loss control system to a more commitment-based system – here is how you run your business, and by the way, if you run your business in an effective way, the loss control numbers should follow.”⁷

⁷Barton. T., Shenkir, W., Walker, P., Making Enterprise Risk Management Pay Off.

Lessons learned⁸

1. A **cookbook recipe** for implementing enterprise-wide risk management is not feasible because so much depends on the **culture** of the company and the **change agents** who lead the effort.
2. To manage effectively in today's environment, companies should make a **formal, dedicated effort** to identify all their **significant risks**.
3. **Various techniques** are available to identify risk, and once identified, the process of identification should be **dynamic and continuous**.
4. Risks should be ranked on some **scale** that captures their **importance, severity, or dollar amount**.
5. Risk should be ranked on some **scale of frequency of probability**.
6. Measure financial risk with the most sophisticated and relevant tools available, such as **VAR and stress testing**.

⁸Barton. T., Shenkir, W., Walker, P., Making Enterprise Risk Management Pay Off.

United Grain Growers Case study- Lecturer to discuss questions below with students

- What has happened? (the **event**)
- What was the root **cause**? (contributing factors)
- What could have been done to prevent it? (controls)
- How could the UGG managers better managed ERM Risks? (executives, managers and staff)
- What were the risks and outcomes for the Public/clients, the company , internal stakeholders and staff? (take different perspectives and contexts)

Lessons learned¹⁰

7. **Develop sophisticated tools and measures** to meet the organisation's needs and that management can easily understand.
8. Know your **company's** and your **shareholders' appetite for risk**.
9. Apply **more rigour to measuring nonfinancial risks** whenever possible.
10. Companies are choosing **various combinations of acceptance, transfer, and mitigation** to manage risk.
11. Decisions regarding control (an application of mitigation), acceptance, and transfer are **dynamic** – they must be **continuously re-evaluated**.
12. Seek **creative solutions** and **transfer risk where economic opportunities exist**.

¹⁰Barton. T., Shenkir, W., Walker, P., Making Enterprise Risk Management Pay Off.

Lessons learned from case studies¹¹

13. Organisations should adopt an **enterprise-wide view** of risk management.
14. **Consultants**, if they are used, should **supplement**, not replace, senior management involvement in the risk management effort.
15. Successful companies are good at managing silos of risk. Enterprise-wide risk management offers them **more effective risk management** at potentially **lower costs**.
16. **Making risk consideration** a part of the decision-making process is an essential element to enterprise-wide risk management.
17. Risk management **infrastructures vary in form** but are essential to driving throughout the organisation the idea that decision makers should consider their risks.
18. A prerequisite for implementation of enterprise-wide risk management is the **commitment of one or more champions at the senior management level**.

¹¹ Barton. T., Shenkir, W., Walker, P., Making Enterprise Risk Management Pay Off.

Summary

- Enterprise Risk Management (ERM);
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- Leadership, management and commitment;
- Interdependency between policy, goals, reward and sanction;
- Methodologies, processes, and outputs;
- Communication and consultation;
- Training and development;
- Integrating quantitative and qualitative elements of risk management.

We trust you enjoyed participating in the journey of risk management. All the best for the exam!