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## ERM is Attainable

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***The knowledge and application of risk management is expanding with a growing focus and importance. Care must be taken in qualifying the scope of extent of the risk management being applied, as the term has generic applicability and can mean many "risk types".***

There is a distinction between market risk, credit risk and operations risk. Operational risk is a relatively new "kid on the block" and the one focused on in this article. Those organisations that recognise that risk management consists of three main pillars; risk management, compliance and audit (i.e. assurance), each having their own standards and codes that define how they work and integrating them have embraced ERM, Enterprise Risk Management at a high level. What defines a successful risk management implementation? Commentators have given varied reports showing that out of some success stories there will be failed risk management implementations, or perceptions publicized that are disparaging to risk management.

Though risk management in this context is still a young industry, most organisations have made some progress. However is seems that no organisation has put up their hands to claim a successfully completed implementation.

In fact there are a number of aspects that need to be aligned, or coordinated to make the difference in having a successful implementation.

It is obviously crucial to gain the support of executive management. Likewise at the line management level there will be drivers dictating how risk management has a tactical role to play. The sound technical competence of the risk management practitioners is a key success here.

Another obvious factor is gaining the buy-in of staff that work in the business operations, where representation at all levels will need to participate. The term "embedding" risk management is used colloquially in the several Standards and Handguides for risk management. What is meant is that risk management should not be a separate activity from day to day work.

If the risk registers are reviewed monthly or quarterly then it is hard to see how risk management can be embedded. Hence the framework driving the process needs to solve how embedding of risk management is given effect.

The risk framework is also one of the aspects that contribute to successful implementations. In fact there are many frameworks available to be used, the AS/NZS 4360 / ISO 31000 being the most renowned and supported, other examples are COSO and SOX.

Most organisations have by this time developed a framework. But having a framework that is capable of being implemented is what makes the difference.

Risk management software makes up the “other side” of the coin to the framework. Whereas the framework is the “how to” for risk management, it is virtually impossible to implement in efficient ways without the tools. The tools should enable the process, not drive it.

There are some home truths that come quite quickly when anyone starts to implement risk management “more seriously”, in relation to employing the right tools. Excel spreadsheets are still in formidable use in the field, yet this is hardly the right tool to be used. For starters Excel is not a relational database and using the wrong tool sends the wrong message for risk management! It might be useful to use Excel to prove the model you want but that’s where it should stop!

Using an appropriate proprietary risk management package is necessary, but with so many vendors in the marketplace it can sometimes be confusing to see which vendor product is the most superior, relevant one for you.

One tip that can be given is that if the framework is robust then it leads to you more likely to select a package that has the “wings to do the job”.

The last of the significant aspects to consider is the implementation plan. Even with the best of practitioners on the job, a good framework in place and a good risk management package it does not mean that the implementation itself will be successful.

There is a lot more to implementing risk management than may initially be envisaged. There are cultural issues to deal with, change management may need to be factored in and the level of potential disruption to the business also needs to be considered.

There is literally no single approach to risk management, but rather finding an approach that will be a balance between the investment made and the objectives to be attained. In the initial stages the approach tends to be focused around the predominant framework that is used, be it say the 4360 / 31000 Standards or COSO, but after cultivating the role of risk management and how it is governed, you will find many applications for harnessing the benefits that it is meant to bring.

Some of the war stories that are told indicate that when risk management fails to make a big splash, that reasons given vary from other priorities taking over, or resources being taken away or resistance from the wider body of staff to commit time and effort.

It demonstrates that the key aspects that are described above are each variables in their own right but fundamentally they all need to be working effectively together. If any of them is weak, then the implementation will be hampered. It is also advisable to build into the equation two distinct phases that you go through to implement risk management.

The first phase is a “building phase”. This is when more effort is need to build the risk profiles, for example by running workshops or surveys and developing reporting protocols. The second stage is the “maintaining phase” where the necessary infrastructure has been put in place and risk management becomes part of routine operations.

You find that during the building phase that it may be necessary to engage external resources on a short term basis since the internal ones usually have a range of tasks to perform and may not be able to give risk management the extent of time needed to be successfully built let alone in the time that was originally planned for.

When engaging external resources, look for precedence in who is successfully implementing risk management in the field and treat this as a key factor in selecting appropriate partners. There are many consultants offering to design frameworks but they may not have the depth

of experience or knowledge to get into the trenches during the implementation. Organisations that engage external consultants should emphasise the need for knowledge and skill to be transferred and therefore consultants that demonstrate empathy with staff in learning this new discipline and have a training bent may offer better value.

Leadership is also needed to ensure that the objectives of risk management are being met at each stage of the way, particularly in the earlier (or building) stage when risk management tends to be seen as more theoretical than tangible. And as risk management is taken wider into the business it may be necessary to refine the process or approach to angle it to suit stakeholder needs, but don’t compromise on the framework unless it can be shown that the framework itself is lacking in some aspects.

If during the implementation you start to struggle to get traction, invariably it will likely be found that one or more of the aspects mentioned above is the culprit.