

Risk Management Made Simple

Welcome to the FREE Online Newsletter about **Systematic Risk Management**
for **executives** and **management professionals**
from **Risk Wise Inc.** and **Diana Del Bel Belluz**

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FEATURE ARTICLE: Definitive Risk Management Guidance

By Diana Del Bel Belluz, M.A.Sc., P.Eng.

Recently a member of the Enterprise Risk Management Association on the LinkedIn business networking site asked ***What is the preferred enterprise risk guidelines covering all sectors?*** This is a question asked by many people who are new to the risk management discipline.

The truth is, there is no definitive guidance or approach for enterprise risk management (ERM), nor will there ever be.

While there are principles of ERM that will apply broadly, they can't be applied in the same way in any two organizations. **This is because of the enormous importance of the role of context.** Even organizations in the same sector will differ greatly because of their unique contexts.

For example, two steel companies were located across the street from each other. They were in the same industry and same town, but were vastly different. These 'night and day' **differences began with their organizational cultures** (including their ERM mindsets), **and extended to the employees and suppliers they attracted** (one cultivated a strong relationship with its employees and contractors while the other had a union shop), **their business processes and practices** (one was able to sustain a high degree of innovation while the other was not), **and to their business results** (one was consistently profitable while the other was in and out of bankruptcy protection).

To illustrate the importance of context in understanding behaviour, Nobel Prize winning psychologist **Herbert Simon** used the metaphor of the mind as a pair of scissors. One blade of the scissors represents the brain (i.e., capabilities for perception, analysis, innovation and decision-making) and the other represents the brain's environment (i.e., the decision-making context). We cannot understand the operation of the scissors without understanding the simultaneous movement of both blades. Extending the metaphor, **unless you understand the organizational decision-making context, you cannot influence risk management behaviour.**

Attention to context is critical for effective enterprise and operational risk management because the devil is in the details of implementation. **Successful application of risk thinking to management decision-making requires attention to the interplay between context** (including **both the general** economic and competitive business environment **and the specific** nature and time horizon of the particular issue that must be decided) **and your risk management capabilities** (including your risk culture and your current level of risk management maturity).

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The **Risk Management Spectrum** (see box on opposite page) is a simple tool for understanding the maturity of your organization's risk management capabilities. If you want to enhance your ERM capabilities to move closer to the proactive end of the spectrum, know that **there is no one-size fits all with risk management guidance.**

Here is my view on how three sources of ERM guidance each add a valuable perspective on the intersection between **understanding the role of context** and **applying risk management capabilities to strategic and operational decision-making.**

1. COSO

While some financial organizations have embraced the COSO (Committee of Sponsoring Organizations of the Treadway Commission) ERM Integrated Framework, a recent survey¹ of executives working in the area of ERM revealed that **COSO was not considered a key source of information and guidance.** Many risk professionals (myself included) find that the COSO cube is needlessly complex and seems to be aimed more at satisfying auditors than supporting decision-makers.

COSO does provide a strong linkage to the concepts of risk control. In an operational context, managers need to ask 'What could stop us from achieving our objectives using our corporate strategy?', not 'Does this strategy effectively balance risk, reward, and costs?' That's because **in an operational context, where reliable execution of strategy is the main objective, an emphasis on control is entirely appropriate.** If you're constantly second guessing your corporate strategies, you'll never execute them efficiently.

2. ISO 31000

ISO 31000 (like AUS/NZ 4360, CSA-Q850) **does a good job of explaining the importance of business context.** Unfortunately, too many practitioners skim over this step and rush to misapply risk assessment tools and then wonder why risk management doesn't gain traction in their organization.

In my view, **the most important contribution of ISO 31000 is that it puts risk management into the context of organizational design.** It includes a helpful discussion of the necessary components of an organization's framework for managing risk and the way in which those components interrelate. **This validates the approach I've used for over a decade to assist clients to build and continually improve their risk management framework and decision-making capabilities.**

What I find disappointing with most standards (and many risk management professionals) **is that they start with the implicit premise that the status quo level of risk is either acceptable or too high.** I'm inferring this from the stereotypical risk management options they offer which are along the lines of: 'avoid', 'reduce', 'transfer', and 'accept'. I'm delighted to see that **ISO 31000 includes a 'take or increase risk' option.** As a discipline, risk management professionals need to get comfortable with risk-taking and exploring the upside of risk if we want our discipline to be relevant to executive decision-makers.

3. Nonprofit Risk Management Center

In the context of developing corporate strategy, an innovation stance is essential for exploring the "opportunity" side of risk. **You need to remove your 'risk control' hat and ask questions such as:**

- Are we taking enough risk to achieve our goals?
- Are we taking the right risks (i.e., risks that will yield the desired type of benefits AND are consistent with our values)?
- Will we get paid enough (in terms of economic or social 'goods') for the risks we are contemplating taking?

A great source of guidance on these types of questions is **Ready... Or Not: A Risk Management Guide for Nonprofit Executives** the new book by **Melanie Lockwood Herman** (see this month's **Bonus Resource** for a review of this book). While it draws on examples from the nonprofit sector, **the concepts in this book are also highly relevant for organizations in the corporate and government sectors.**

The Risk Wise bottom line... If you want your people to display appropriate risk-taking behaviour, **you need to ensure they have the know-how to tailor the application of your risk management tools to suit the context of particular decision they are making.**

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How well do managers across your organization apply balanced risk thinking to the decisions they make? To explore how you can enhance your people's abilities to attune their risk management capabilities to the particular context of each business decision they face, contact **Diana Del Bel Belluz** at **Risk Wise**: (416) 214.7598 Diana.Belluz@riskwise.ca

¹ John R.S. Fraser, Karen Schoening-Thiessen, and Betty J. Simkins. Who Reads What Most Often? A Survey of Enterprise Risk Management Literature Read by Risk Executives. *Journal of Applied Finance*, 2008.

The Risk Management Spectrum



Risk Wise presents a

Free Webinar

on the book

Enterprise Risk Management: Today's Leading Research and Best Practices for Tomorrow's Executives

**September 20, 2010
12:00pm-1:00pm EDT**

Find out about emerging ERM trends...

Diana Del Bel Belluz will interview **John R.S. Fraser** and **Betty J. Simkins**, the co-editors of the latest ERM textbook published by **John Wiley & Sons, Inc.** The webinar will feature a live Q&A session. **Don't miss your chance to get answers** to questions such as:

- What does the book offer to executives who want to improve the practice of ERM in their organization?
- What important ERM challenges does the book address?
- What does this book add to the ERM literature in terms of new ERM approaches and thinking?
- What are the trends in how ERM is being applied?
- What concepts in the book are thought-provoking and potentially game-changing?
- What are readers saying about the book?

Space is limited. To reserve your spot, visit:

https://www.riskwise.net/ERM_Webinar.html

Upcoming Events: For details visit: <https://www.riskwise.net/Events.html>

- **August 23-26, 2010**, Vancouver, BC - **Process Hazard Analysis (PHA) Leadership Course** from **ClearSky Risk Management**.
SPECIAL OFFER: 10% discount for **Risk Management Made Simple E-Zine** subscribers.
- **September 15-16, 2010**, Ottawa, ON - **The Conference Board of Canada** will present its annual **Intergovernmental Forum on Risk Management Conference**.
SPECIAL OFFER: \$300 discount for **Risk Management Made Simple E-Zine** subscribers.
- **October 10-12, 2010**, Philadelphia, PA - **Risk Management and Finance Summit for Nonprofits**. The **Nonprofit Risk Management Center** will present its annual conference.

About Us



Diana Del Bel Belluz
President
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Diana Del Bel Belluz, M.A.Sc., P.Eng., is a risk management advisor who **helps executives in complex organizations to implement systematic and sustainable risk management practices**. Since 1990, Diana has been doing **leading-edge risk work** for a wide range of organizations in the corporate, government and nonprofit sectors.

In addition, Diana **advances the field of risk management** by **teaching** university courses and management training seminars, **speaking** at conferences and **authoring** publications on a wide range of risk management topics.

To learn more about Risk Wise, contact Diana Del Bel Belluz directly at: Diana.Belluz@riskwise.ca



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