

Risk Management Made Simple **Advisory**

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

August 2013

In this issue...

- **Feature Article: Creating a Healthy Risk Management Culture – Part 4** (page 1)
- **Bonus Resource: How to Measure Risk Appetite** (page 4)
- **Upcoming Events and Special Offers** (page 3)

"I find powerful and pragmatic ideas in the *Advisory*, some of which we have applied in our organization."

Hans Læssøe

Senior Director, Strategic Risk Management, LEGO Group

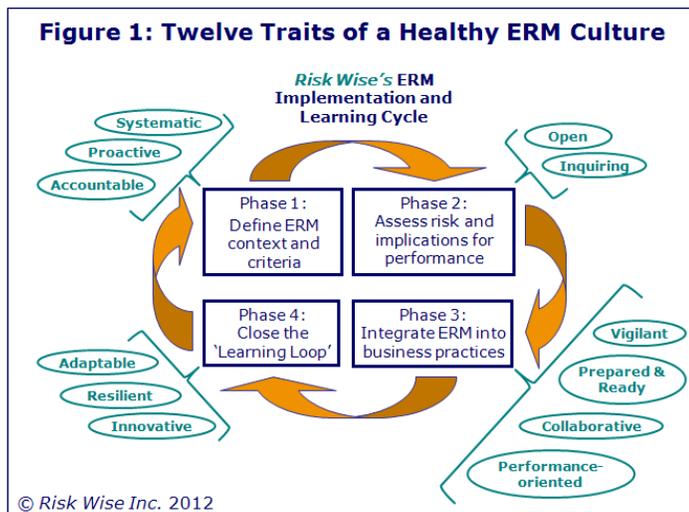
FEATURE ARTICLE: Creating a Healthy Risk Management Culture – Part 4

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

This is Part 4 of a series of articles **defining 12 cultural traits that are essential for a healthy risk management culture**. In this article, I provide tips on how to promote two of the 12 traits, i.e., being **Performance-Oriented** and **Collaborative**.

The earlier articles in the series covered six of the 12 ERM culture traits (shown in green font in Figure 1):

- **Part 1 (Sept. 2012): Accountable** and **Proactive**
- **Part 2 (October 2012): Systematic** and **Open**
- **Part 3 (March 2013): Inquiring** and **Vigilant**



The 12 cultural traits support specific phases of the **ERM Implementation and Organizational Learning cycle**. (For details on the cycle, see the Advisory issues of **April 2011**, **October 2011**, **December 2011**, **March 2012**).

Healthy Risk Culture Trait #7: Performance-oriented

ERM programs that are primarily focused on compliance with rules will inevitably degenerate into a tick-box exercise. Merely putting enterprise risk management (ERM) processes in place is not enough. To gain traction and be effective, ERM programs must focus on enhancing organizational performance.

Unfortunately, **many ERM programs fail to measure if and by how much they contribute to organizational performance.** They focus almost exclusively on assuring that risks are identified, assessed and monitored using a **consistent process**. For me, it evokes the image of a race official whose only concern is whether or not the runner followed the rules with no thought to how well the athlete places. It brings to mind this wonderful quote:

"However beautiful the strategy, you should occasionally look at the results." Winston Churchill

Effective ERM leaders focus on **ensuring their firm's ERM processes are actually working!** They embrace their role as "coach" and **put their primary focus on helping decision-makers to measurably enhance organizational performance and resilience.**

To illustrate a performance-oriented culture, I use the image of a runner crossing the finish line. The runner represents the manager and the finish line his or her key objective. As coach, the **ERM leader provides the tools, training, skills and motivation** to help managers deal with the risks that can influence the achievement of their objectives.

Continued on page 2...

How to cultivate it:

To ensure that ERM is oriented towards performance, **first link ERM activities to the achievement of corporate objectives.**

Leaders and managers can accomplish this by constantly asking themselves “How does this ERM action contribute to the achievement of the business objective?” Specifically, managers must interpret and apply the discipline of risk management to their decisions and actions in a thoughtful way to **constantly optimize the risk-reward equation.**

Aligning with corporate objectives helps you to:

- **Keep the focus on performance** (vs. assurance for assurance’s sake)
- **Track ERM results** by **quantifying the value of ERM** in terms of its *actual* contribution to the achievement of corporate objectives.

A second strategy is to **use your ERM tracking and reporting to build feedback loops** that encourage a virtuous cycle of good ERM behaviour. When leaders acknowledge the contribution of ERM to corporate objectives, it goes a long way towards building buy-in.

Healthy Risk Culture Trait #8: Collaborative

In the early days of ERM, emphasis was placed on assigning an “owner” to each enterprise risk. The rationale was that accountability would incent the risk owner to ensure the risk was managed to an acceptable level.

That thinking works well when risks are truly compartmentalized, i.e., the **risk owner both has control over the risk and bears the brunt of the impact** and is therefore incented to manage it.

However, many enterprise risks ignore organizational boundaries. These risks can **arise due to the actions of one or more functional areas** or business units **but the effects are felt in yet another area(s) of the organization.**

Furthermore, research shows that **catastrophic corporate collapses are rarely due to a single cause.** Instead, they typically result from several **interdependent risks** coming to fruition simultaneously or in a chain reaction.

For risks that cross organizational silos and for interdependent risks, **it isn’t practical for a single risk owner to single-handedly manage the risk.** Instead, **a collaborative approach is required.** The risk “owner” acts more as a “broker” **to establish and coordinate the relationships necessary for effective management.**

How to cultivate it:

Understand the cause-effect relationships of enterprise risks. How does each risk arise and who is affected by it? What are the interrelationships between risks? Knowing the answers will enable you to **identify the internal and external stakeholders** that must be part of the risk response strategies.

Decide who is best positioned to respond to the risk. For risks that cross organizational silos, it is important to **define the roles and relationships** that are necessary for effective risk management. It’s also important to **define how you will communicate across silos** to ensure that the right information gets to the right people in a timely manner for effective risk management action.

Ensure people are properly incented to work together to manage the risk. This may require negotiation between departments. The CEO plays a major role in ensuring that the senior team is incented to work together on risks that cross silos.

For example, the CEO of one client that I worked with decided to **focus ERM discussions entirely on those risks that crossed organization boundaries.** For enterprise risks that were neatly contained within a single department, “ownership” was assigned to the executive accountable for that department with the expectation that the risk “owner” would handle the risk as part of their normal business function.

This enabled the senior leadership team to give their full attention to “shared” and interdependent risks that required management to collaborate on solutions. The CEO’s approach served to both **encourage collaboration** and to **streamline the executive team’s conversations about enterprise risks.**

The Risk Wise bottom line... While assurance is an important element of ERM, **performance is king.** Constantly orienting ERM activities to the achievement of organizational objectives is the **only way to provide value** and is also **essential for winning and sustaining buy-in to ERM.** Since many enterprise risks cross organizational silos or can interact with other risks, you need to **broker relationships that engender collaboration among internal and external stakeholders.**

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My forte is coaching executives on how to integrate ERM into their organization’s unique business practices and culture. If you want help **to engender a performance-oriented and collaborative culture in your organization, contact Diana Del Bel Belluz** at **Risk Wise: Diana.Belluz@riskwise.ca** or by telephone at (416) 214.7598

Upcoming Events and Special Offers*

- **SEMINAR: Articulating and Applying Risk Appetite** hosted by **Risk Wise** on **September 5, 2013** in **Toronto**. **Diana Del Bel Belluz** of **Risk Wise** and **Leslie Thompson** of **LESRISK** will provide an introduction to fundamental risk appetite concepts, approaches and tools. There will also be a panel discussion with these leaders about their experiences in operationalizing risk appetite:
 - **Colleen Geiger**, Director, Planning and Implementation, **Public Health Ontario**
 - **Rob Quail**, Director, Enterprise Risk Management, **Hydro One Inc.**
 - **Evelyn Sutherland**, Chief Financial Officer, **EnerCare Inc.**
 - **Ingrid Suurmann**, Vice-President, Corporate and Chief Financial Officer, **St. Mary's General Hospital**
- **CONFERENCE: 2013 Risk Management Summit for Nonprofits** presented by the **Nonprofit Risk Management Center** in **Boston** on **August 25-27, 2013**. **Diana Del Bel Belluz** of **Risk Wise** will be leading sessions at this event on the following topics:
 - **Enterprise Risk Management Governance and Board Oversight**. Diana will co-present this workshop with **Melanie Lockwood Herman** of the **Nonprofit Risk Management Center**.
 - **Enhancing the Risk Appetite Conversation between Management and the Board**. This workshop will pick up on the themes introduced in the webinar she presented in December 2012 for the **Nonprofit Risk Management Center** on **Calibrating Your Nonprofit's Risk Appetite: Candid Conversations at the Board Table**. Note: **To access a recording of that webinar**, go to: http://www.nonprofitrisk.org/training/webinars/webinars_2012.asp and scroll down to the 'Risk Appetite' webinar held on December 5, 2012. When you click on the orange "Register Now" button, the webinar will be put into your online shopping cart (the price is a very reasonable US\$59 and **all proceeds support the Nonprofit Risk Management Center**). After completing the online checkout, you will be given a link or directed to the page with the recording.
- **CONFERENCE: Intergovernmental Forum on Risk Management 2013. The Conference Board of Canada** will present this event on **October 2-3, 2013** in **Ottawa**, Ontario. **Diana Del Bel Belluz** of **Risk Wise** will be moderating a panel on the theme "**Whither Risk Management?**" where **Rob Quail** of **Hydro One** and other thought leaders will discuss the future of risk management including topics such as: *What benefits have recent risk efforts produced? Is it really possible to combine risk and innovation, and what should that look like? How important is the language we use? What new approaches offer the most promise?*

SPECIAL OFFER: Risk Management Made Simple Advisory subscribers are eligible for a **\$400 discount** off the full fee. Note: this discount is valid for new registrations only. All subscribers have been sent the special code required to access this discount. If you're not yet a subscriber and wish to access this special offer, [click here](#) to sign up for your complimentary subscription to the **Risk Management Made Simple Advisory**.

* For details on these and other events and offers, visit: <http://www.riskwise.ca/events.html>

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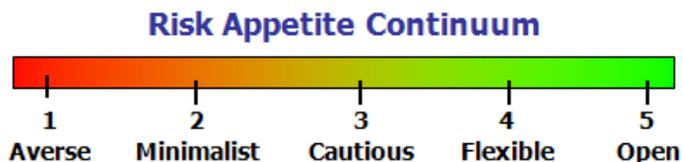
Please share this Advisory with people in your network.

BONUS RESOURCE: How to Measure Risk Appetite

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

Last fall I had the pleasure of co-presenting a session on **Risk Appetite** with **Rob Quail** of **Hydro One** Inc. He shared a novel approach that he documented in his article [Defining Your Taste for Risk](#). You can access the article on the [Risk Wise Reading List](#) at: <http://riskwise.ca/resources.html>

The article **provides a scale to help people gauge their risk appetite** along this continuum:



In his article, Quail explains that **risk appetite is context dependent**. He then goes on to illustrate the 5-points on the risk appetite continuum along **four dimensions** (philosophy, tolerance for uncertainty, choice, tradeoff) **that assist people to apply the scale to any particular strategic objective or risk**. At the "Averse" end of the continuum, extremely conservative risk-taking and risk management behavior is expected, e.g.:

- **Philosophy:** "Sacred" – avoidance of risk is a core objective
- **Tolerance for uncertainty:** Extremely low
- **Choice:** When faced with multiple options, will choose the one with the lowest risk, always
- **Tradeoff:** Will never trade off this objective against others Will take justified risks

Whereas at the "Open" end of the continuum, a more aggressive stance is encouraged, e.g.:

- **Philosophy:** Will take justified risks
- **Tolerance for uncertainty:** Fully anticipate uncertainty or volatility in results
- **Choice:** When faced with multiple options, will choose the one with the highest return and accept the possibility of failure
- **Tradeoff:** Willing to trade off this objective against others

Of course, **each organization must customize its own scale** to reflect its particular business context. The scale is a key tool to:

1. **Define the target risk appetite** with your executive leadership team and board. This sets out the expectations for risk-taking behavior.
2. **Measure the actual** risk appetite and identify any gaps between *exhibited* and *desired* levels.
3. **Evaluate and align** risk appetite across the organization to enhance performance.

Rob will be one of the featured speakers at the **Risk Appetite Seminar** hosted by [Risk Wise](#) on **September 5th** in **Toronto**. The seminar agenda includes a live simulation that brings to life the key concepts in Rob's article.

For information on the seminar, please contact me at Diana.Belluz@riskwise.ca or visit:

<http://www.riskwise.ca/events.html>

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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