

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**

December 2012

In this issue...

- **Feature Article: A Call to Action** (page 1)
- **Bonus Resource: Risk Appetite Resources** (page 3)
- **Upcoming Events and Special Offers** (page 4)

"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: Call to Action to Enterprise Risk Management Leaders

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

[This article was recently published as a guest editorial in *RiskPost*, the newsletter of the [New Zealand Society for Risk Management](#).]

If you want to successfully implement enterprise risk management (ERM), focus on action rather than the design of your framework (policies, accountability and reporting structures, principles, processes, or tools). This may seem like heresy. But **action is the only path to a healthy risk management culture** where your people take appropriate risks and then actively manage the outcomes for success.

Here's a story from my family lore that illustrates the importance of skill above technology (or framework) – a crucial lesson for implementing risk management.

When my father was a young teen in the early 1950s, the yo-yo craze was all the rage in Canada. He bought one, brought it home, unwrapped it, tied a knot in the string and placed it on his finger. Then he let go of the yo-yo and with the aid of gravity, it headed to the floor. But, much to his chagrin, it didn't return to his palm as he had seen in the ads. Annoyed that the yo-yo was defective, he decided to return it. The storeowner took the yo-yo, put it on his finger and immediately began to do tricks with it, declared there was nothing wrong with it, and handed it back to him. My dad was very embarrassed at the time, but later used the story to regale his kids with his humorous retelling of it – a wonderful lesson in humility.

The more important lesson is that you don't become a master by purchasing technology. **To become proficient at anything takes many hours of practice and heaps of motivation to stick with it until it becomes second nature.**

Likewise, you can't achieve effective risk management by simply introducing a framework. Yet, as risk management leaders we often fall into the trap of focusing almost exclusively on developing the 'perfect' risk management framework. We forget that people – not frameworks – manage risks.

While a good risk management framework is helpful, **the secret of achieving effective risk management is to develop your people's skills and motivate them to apply those skills. That requires leadership. Why? Because the actions of leaders is the most important determinant of culture.**

Here are **three things you can do** as a risk management professional and leader **to put an emphasis on developing ERM skills in your organization.**

1. Motivate your people to develop their ERM skills.

This is best done by actually applying the ERM policies, processes, and tools you have worked so diligently to create. It's not about a change management plan that introduces a framework; rather, **you need a plan for how you will create change in people's behaviour.**

The most effective way to do this is to **establish feedback loops** that encourage the kind of behaviors you want and discourage inappropriate risk management decisions and actions. Feedback can directly influence behaviour.

What your organization's leaders do (not what they say or put in a policy) **sets the 'tone from the top'**. This applies to your **leaders' actions in terms of their own risk-taking** and risk management decisions.

Continued on page 2...

Feature article (... continued from page 1)

It also applies to **how your leaders provide feedback** by rewarding, sanctioning, or passively permitting the risk-taking and risk management behaviours of managers and employees. **Over time that direct feedback reinforces the behavioural norms that become your organization's culture** around taking and managing enterprise risks.

In addition, the **use of a few well crafted questions can create indirect feedback loops** that force you to look at the changes in your business landscape and adjust your risk ERM strategies and drive action. For example, your board, executives, managers, and you (as the risk management professional) could ask:

- *Have we followed our risk management process in developing this business plan?*
- *What's changed about our business environment this quarter and what are the implications for achieving our objectives this year?*
- *How are our risk response plans coming along?*
- *Do we have the capabilities and capacity to withstand a major shock to our system?*
- *Do we have the flexibility to regroup quickly and capitalize on a major new opportunity?*
- *What surprised us this year and what does that tell us about our risk detection/monitoring capabilities?*
- *What opportunities did we miss and what does that tell us about how we are interpreting our risk appetite and tolerances?*

2. Dedicate time to developing your people's skills.

In planning your risk management implementation activities, I recommend allocating as much time (or more) as you do to building and refining your ERM framework. **The know-how required for effective ERM does not develop spontaneously.** A sustained investment of time and effort is required to cultivate it.

No one goes from novice to master in one step. Instead, when it comes to building know-how and competence **an evolutionary process works best.**

Don't try to teach your people everything they need to know about risk management in a single training session. **Instead, impart a little risk management knowledge; let them apply it and experiment with it;** and then lead them through some structured reflection to **help them evaluate the results and determine what they need to learn next.** Repeat.

As your people gain confidence with their new risk management skills, they will develop an awareness of knowledge gaps or new questions for which they will need additional education and skills training.

3. Develop your own risk management leadership skills.

I've observed that **a great deal of a risk management leader's success comes from the particular mix of people and business strengths they possess.** Certain traits are consistently present in risk management leaders who succeed and typically absent in those that fail. In April 2008, I wrote an Advisory article on [*Key Ingredients for Systematic Risk Management*](#) that outlines the essential characteristics of successful risk management leaders.

Since that time, I've made another important observation that may explain why some risk management programs fail to gain traction. **Many risk professionals are extremely reluctant to seek out ERM training** (even if they have little or no experience in implementing ERM or leading organizational change) because they mistakenly think it signals they don't know their discipline.

Fear of appearing incompetent stops them from seeking out the help they need. For example, I recently spoke with a director who had been leading her organization's enterprise risk management program for 5 years and still had not managed to engage leadership support or employee buy-in. She spends her time refining her risk framework and can't (or won't) see that she needs to develop her skills in leading change. The writing's on the wall for her; if she continues on her current path, either her ERM program will continue to languish or die, or she will be replaced.

I've observed that non-risk professionals, because they don't have any formal background in risk management, are not afraid to seek out advice and assistance. For example, in the last few years I've worked with several leaders with titles such as Chief Financial Officer, General Counsel, Chief Operating Officer, and Chief Executive Officer. **With a little training and mentoring** from me (a risk professional who has been there) **these non-risk professionals have made tremendous progress in bringing ERM to life in their respective organizations.**

As with any other skill, **the right guidance can help you develop your ERM implementation proficiency more deeply and quicker than if you try to go it alone.**

If you have been tasked with championing the implementation of ERM in your organization, a simple action you can take is to **inventory your leadership skills and experience to identify your ERM professional development priorities.** (You can use the exercise in the article referenced above to conduct the inventory.)

Continued on page 3...

Feature article (... continued from page 2)

Then **find an experienced ERM expert (a peer or a consultant) to help you round out the gaps in your risk management leadership skills.** And don't be afraid to seek out additional advice or a second opinion when you run up against an ERM implementation challenge you haven't faced before.

A seasoned ERM professional who's been there, can **help you to avoid the common mistakes** and stumbles of the novice. They can also greatly accelerate skills development and **help you to rapidly achieve mastery.** That's why even elite athletes have coaches!

The Risk Wise bottom line... Effective risk management requires an **emphasis on action rather than on your ERM framework**, process or tools. You need to **plan how you will create change in people's behaviour.** This includes **developing your own leadership capacity.**

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To learn to **access our 'Risk Management Personal Trainer' services from any country** through the power of the internet, **contact Diana Del Bel Belluz** at **Risk Wise: Diana.Belluz@riskwise.ca** or by telephone at (416) 214.7598

BONUS RESOURCE: Risk Appetite Resources

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

Over the fall, I was invited to give three talks in which gave me an opportunity to **share emerging practices and experience in articulating and applying risk appetite and risk tolerance:**

- **"Risk Appetite and Risk Tolerance"** co-presented by me and **Rob Quail** of **Hydro One Inc.** at the **RIMS Canada** conference in September
- **"Making Smart Risk Decisions – Developing Risk Appetite and Risk Tolerances"** co-presented by me and **Michelle Williamson-Reid** of **Technical Standards and Safety Authority** at the **O-RIMS** professional development session in October
- **"Calibrating Your Nonprofit's Risk Appetite: Candid Conversations at the Board Table"** presented by me for the **Nonprofit Risk Management Center's** 'first Wednesday' webinar series. **You can access the recording at: http://www.nonprofitrisk.org/training/webinars/webinars_2012.asp** Scroll down to the 'Risk Appetite' webinar held on December 5, 2012 (it's at the end of the list of webinars). Clicking on the orange "Register Now" button will put the webinar in your shopping cart (cost is very reasonable at US\$59). After completing checkout, you will be given a link or directed to the page with the recording. (Note: **All proceeds from the sale of this webinar support the Nonprofit Risk Management Center**).

In the spirit of sharing, here is the **Risk Appetite Bibliography** I compiled in my research for the talks:

- ***Defining Your Taste for Risk.*** Article by R. Quail in **Corporate Risk Canada**, 2012
- ***Exploring Risk Appetite and Risk Tolerance.*** RIMS Executive Report, 2012.
- ***Understanding and Communicating Risk Appetite.*** L. Rittenberg, F. Martens, COSO, 2012.
- ***Risk Awareness and Risk Appetite.*** Chapter by D. Del Bel Belluz & M. Lockwood Herman in ***Ready... or Not! A Risk Management Guide for Nonprofit Executives 2nd Edition***, Nonprofit Risk Management Center, 2011.
- ***Enterprise Risk Management: Today's Leading Research and Best Practices for Tomorrow's Executives***, John R.S. Fraser and Betty J. Simkins (editors), John Wiley & Sons, Inc., 2010. References in:
 - Chapter 7: ***ERM Frameworks***, by J. Shortreed
 - Chapter 16: ***Operational Risk Management***, by D. Del Bel Belluz
 - Chapter 17: ***Risk Management***, by J. Rizzi
 - Chapter 27: ***Establishing ERM Systems in Emerging Countries***, by D. Yener
- ***Research into the Definition and Application of the concept of risk appetite.*** Report by Marsh and University of Nottingham. Commissioned and published by airmic, 2009
- ***The Tricks to Tolerance.*** Article by D. Del Bel Belluz in ***Risk Management Made Simple Advisory***, 2008
- ***Thinking about risk – Managing your risk appetite: A practitioner's guide***, HM Treasury, 2006

Upcoming Events and Special Offers*

January 28-29, 2013

The Conference Board of
Canada's

Enterprise Risk Management Conference: *Creating and Protecting Future Value*

Hyatt Regency Toronto
Toronto, Ontario

Are you looking ahead with your enterprise risk initiatives?

While most risk practitioners have done a great job of dealing with immediate and ongoing risk issues, there's still a great deal to be done to ensure risk management anticipates and mitigates potential future downside risks and exploits upside risks to innovate and create value.

Join your peers, senior executives and leading risk experts who are evolving their ERM culture and programs to more fully realize ERM's potential to deliver proactive and effective risk management. Learn how scenario analysis and stress testing can help you understand the implications of threats and opportunities, explore options for dealing with potential risks, and predict and evaluate emerging risks. Examine how risk appetite can guide strategic priorities. You'll also find out how to establish a disciplined risk oversight framework.

SPECIAL OFFER: \$460 off of the total registration fee for
Risk Management Made Simple Advisory subscribers.

Training Course: Risk Management 2.0 for Granting Programs. Presented by **Wiltshire Consulting**. January 30, 2013 in Toronto

SPECIAL OFFER: \$100 discount for *Risk Management Made Simple Advisory* subscribers on:

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

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About Us



Diana Del Bel Belluz
President
Risk Wise Inc.

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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