

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**

March 2012

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"I save and study each issue of the *Advisory*. I appreciate how **Diana gives very practical advice and links it to fundamental theories and best practices**"

Sherrie Hyde, CA
Risk Manager
Lutherwood

FEATURE ARTICLE: Risk Management Basics – Step 4: Close the Learning Loop to Optimize Your ERM Performance

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

In this fourth article on the basics of risk management, I'll share tips on **how to effectively navigate the ERM implementation journey**.

This 4-part series of articles introduces the **Risk Wise ERM Implementation and Organizational Learning Cycle** and its four essential steps for bringing ERM to life in any organization:

1. Define the context and criteria for enterprise risk management (ERM)
2. Assess risks and its implications for performance and stakeholder value
3. Integrate ERM into business practices
4. Close the learning loop to fine-tune & optimize ERM

Seasoned ERM leaders will freely admit that establishing the culture of **ERM is a journey not a project**. Optimal risk management performance isn't achieved by merely introducing ERM tools and techniques. It requires the sustained cultivation of systematic and proactive risk management behaviour.

Indeed, **the ERM journey is an exercise in culture change and organizational learning**.

Yet many executives charge off on their ERM journey without giving much thought to where they are headed or what is the best path to ERM success. **Without an ERM development roadmap**, it's no wonder that so **many ERM programs fail to gain traction, stall, or are abandoned altogether**.

"Experience is inevitable. Learning is not."
- **Paul J. H. Shoemaker**

Successful ERM implementation requires both:

- **an organizational learning framework** (e.g., **Risk Wise ERM Implementation and Organizational Learning Cycle**) to benchmark ERM progress, and
- **an ERM roadmap** to guide the way forward and continually develop the organization's ERM capabilities.

In the fourth step of the cycle, **the ERM program is fine-tuned** based on a thorough evaluation of the organization's ERM effectiveness, its successes and its shortcomings. **To close the learning loop**, the leadership team *applies* the insights gained from the evaluation by updating the ERM roadmap.

Have you defined your ERM roadmap? Whether you have an established ERM program or are just starting out, you need a roadmap to guide your organization on its unique ERM development journey.

Here are 3 tips for charting your ERM roadmap.

Tip #1. Begin with the End in Mind

As with any journey, **knowing the desired destination is crucial** for making decisions about what capabilities you need to get there. Do you need a bicycle, a canoe or a rocket ship to take you where you want to go?

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To define your ERM vision you need to decide:

- **The desired level of performance** that your ERM program must produce. This means articulating what value a successful ERM program will deliver and how you will measure its performance. This becomes 'true north' on your ERM maturity 'compass' (see tip #2).
- **The level of ERM capabilities** that will enable your organization to meet its ERM performance goals. This means defining three kinds of ERM capital required to advance the organization's unique corporate mission:
 - **STRUCTURAL** capital (i.e., ERM framework, processes, and tools)
 - **HUMAN** capital (i.e., your people's ERM knowledge, skills and culture), and
 - **RISK INTELLIGENCE** capital (i.e., how leaders drive the ERM information flows and behaviours that optimize organizational results).

It is a mistake to blindly follow risk management "best" practices because you may end up pursuing a program that is too simple or too sophisticated for your particular needs and unique ERM vision. At *Risk Wise* we have facilitated many executive teams to develop their organization's ERM vision in as little as 30 minutes.

ASK YOURSELF: What benefit should the ERM program deliver to the organization? What problem will this ERM initiative solve? How should ERM benefit decision-makers? What capabilities will it take to deliver our ERM vision?

Tip #2. Check Your Compass

To properly design any initiative to enhance ERM performance, a solid assessment of the organization's current ERM capabilities and performance is required.

"Prescription without diagnosis is malpractice, whether it be in medicine or management."

- **Karl Albrecht**

Many ERM maturity models exist. However, we developed the *Risk Wise ERM Maturity model* because in our review of over a dozen of the most popular risk management maturity models, we found they focused almost exclusively on the components of the ERM program and contained very little on **the key capabilities required to actually implement ERM**.

This gap between the design of the risk framework and the capabilities required to implement it is analogous to having a beautifully designed automobile but no driver with the skills to handle the car or to navigate the route to arrive at the destination.

The three types of ERM capabilities (STRUCTURAL, HUMAN, and RISK INTELLIGENCE) **support each other like the three legs of a stool**. If any one is omitted,

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the integrity and effectiveness of the ERM program will be compromised. *Risk Wise* can benchmark your ERM performance and teach you how to conduct an ERM maturity assessment in as little as 2 hours by using our proven **ERM Capabilities Assessment Instrument**.

ASK YOURSELF: Is our current ERM performance adequate on these three levels:

- **Operational**. Is there adequate progress against plans to manage priority enterprise risks? How effective are our current management strategies in aligning risk exposures with risk appetite / tolerance?
- **Strategic**. How well do our ERM priorities and strategies align with our current business priorities?
- **Systemic**. How well do our ERM capabilities meet the organization's needs and anticipate future needs?

Tip #3. Be Opportunistic

When executives review the results of the assessment of their current ERM performance and capabilities and compare it their ERM vision, they can quickly identify the gaps in their ERM program. It can be tempting to try to bridge all the ERM gaps immediately and simultaneously.

It is wiser to **develop a multi-staged route that is achievable given your available ERM resources and commitments**. It gives your people a chance to absorb new approaches and expectations for ERM behaviour. At the end of each phase, you can review your progress and 'recalculate' your route based on the lessons learned.

At *Risk Wise*, we offer an **ERM Roadmap and Planning Workshop** to help our clients chart their unique step-by-step path to methodically build their ERM capacity and maturity. Through structured discussions, we facilitate the senior team to define key long-term milestones and a short-term action plan for ERM implementation.

ASK YOURSELF: Does our ERM development plan strike a balance between strategies to:

- (a) strengthen our ERM processes and structures,
- (b) develop our people's ERM competencies through training and on-the-job experience,
- (c) cultivate an ERM mindset, and
- (d) optimize the flow of risk information?

The Risk Wise bottom line... Implementing ERM is an exercise in organizational change. **An ERM roadmap is an essential tool to keep your organization moving toward ERM maturity**. You need to embrace the discipline of learning to continually improve your ERM systems, practices, culture, and performance.

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To avoid taking a wrong turn on your ERM journey and wasting your effort, time and money, contact Diana Del Bel Belluz at *Risk Wise*: Diana.Belluz @ riskwise.ca or by telephone at (416) 214.7598

BONUS RESOURCE: A Handbook of Risk Management

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

I'm often contacted by risk management leaders who would like a simple handbook of risk management. They find the sheer volume of literature on Enterprise Risk Management (ERM) overwhelming. Worse, they discover more untested theories and opinions in the literature than practical guidance for implementation.

Therefore, I'm delighted to share with you my review of the book ***Enterprise Risk Management*** authored by **Bevan Lloyd**. This slim volume, published by the **Institute of Chartered Accountants of Ireland**, contains 10 chapters covering these essential topics:

1. Introduction
2. Enterprise Risk Management
3. What is Risk?
4. Required Control Infrastructure
5. Organizational Structures of Risk Management
6. The Risk Management Process
7. Verifying Controls and Strategies
8. Disaster Recovery
9. Fraud Considerations
10. Challenges and Barriers

The strongest features of this book are:

- **It explains the basic components of an ERM program.** This book moves beyond a simple definition of risk management. It clearly defines the organizational structures and management control infrastructure required. Lloyd applies the discipline of an accounting and audit professional.
- **It provides a blueprint and guide for ERM implementation.** Lloyd provides pragmatic guidance on how to weave ERM into the organization's business practices.
- **It positions ERM squarely within a corporate governance context.** Although the book's main reference points are *The UK Corporate Governance Code* (2010) and the *Turnbull Report* (1999), the governance principles it embraces will be familiar to practitioners in other jurisdictions.
- **It's full of examples and samples.** The examples illustrate the concepts in the book and reflect the author's experience. Any of the ERM samples (including policies, tools, charts, and report excerpts) can be used as a risk management template that the reader can adapt for his or her organization.

- **It's concise.** The book is a quick read. It presents a single view of ERM in a brief yet thorough manner. There are other ways to approach ERM. Indeed, if you put 10 ERM practitioners from different organizations in a room, you'd have at least 10 versions of ERM!

However, Lloyd provides a solid, basic approach that the reader can adapt to address the unique context and circumstances of his or her organization.

This book will be of great value to:

- **ERM leaders who are just starting out on their ERM journey.** The book explains the basic ERM components and provides a blueprint and straightforward guide for implementation.
- **ERM leaders who have put in place the fundamentals of their ERM program and are now seeking to take ERM to the next level.** In particular, the book offers concrete approaches for strengthening the links between ERM and the disciplines of performance management, disaster recovery and fraud risk management.
- **Board directors who seek to enhance their ERM oversight.** The book provides some basic tools to support a Board in properly executing its fiduciary duties. The ERM framework described can also be used as a benchmark against which to assess what the organization is doing in ERM.

While **clearly aimed at corporations**, the book **also has plenty of food-for-thought for ERM leaders in the government and non-profit sectors**. For example, in addition to the standard list of risk categories (i.e., strategic, fraud, legal, financial integrity, operational, human resource, information, and reputation), Lloyd offers alternative schemes for categorizing enterprise risks. Examples of alternative risk dimensions include: **locus of control** (external, internal, or a hybrid of the two) and **intentionality** (unavoidable vs. avoidable).

Enterprise Risk Management is a concise and informative reference of corporate risk management guidelines that should be on the shelf of every ERM practitioner, senior executive, and board director.

For details and to order the book, follow this link:

<http://amzn.to/zJz0XK>

Upcoming Events and Special Offers*

- **Human Capital Risk Management Conference.** The Conference Board of Canada will present this event on **April 25-26, 2012** in Toronto, Ontario.
SPECIAL OFFER: \$455 discount for *Risk Management Made Simple E-Zine* subscribers.
- **Strategic Risk Oversight for Board Directors.** The Directors College will present this 1-day program in **Toronto on May 8, 2012** and in **Saskatoon on June 14, 2012.**
SPECIAL OFFER: \$205 discount for *Risk Management Made Simple E-Zine* subscribers.
- **Intergovernmental Forum on Risk Management.** The Conference Board of Canada will present this event on **May 28-29, 2012** in Ottawa, Ontario.
SPECIAL OFFER: \$455 discount for *Risk Management Made Simple E-Zine* subscribers.
- **Risk Management Training Courses** from **Wiltshire Consulting.**
SPECIAL OFFER: \$100 discount for *Risk Management Made Simple E-Zine* subscribers on:
 - **MODERN RISK MANAGEMENT 1 (Introductory)**
 - May 7-8, 2012 in Toronto, ON
 - May 15-16 in St. John's, NL
 - **MODERN RISK MANAGEMENT 2 (Advanced)**
 - May 10-11 in Toronto, ON
 - May 17-18 in St. John's, NL
 - June 13-14 in Ottawa, ON

* For details on this and other events and offers, 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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