

BROADLEAF CAPITAL INTERNATIONAL PTY LTD

ABN 24 054 021 117

23 Bettowynnd Road
Pymble
NSW 2073
Australia

www.Broadleaf.com.au

Tel: +61 2 9488 8477
Mobile: 0419 433 184
Fax: + 61 2 9488 9685
Cooper@Broadleaf.com.au

Specialists in Strategic, Enterprise and Project Risk Management

Enterprise Risk Management

1 A Strategic Approach to Risk Management

Everyone talks and thinks about risks and everyone fears some types of risk. Some always see risks as negative while others embrace them and enjoy them. Most people in business now understand that you have to take risks to progress – and everyone thinks they know how best to treat them. But are we all talking about the same risks, in the same language and defined in the same way? Are the risk treatments we are taking working, or are we exposed to different or greater risks than we appreciate? How can we be sure?

The need to identify and manage risk is high on the agenda for Boards and executive teams, and the media seem to carry reports every day of risk management failures and problems. As a result, the leaders of many organisations are now striving to create a single, all-embracing approach to risk management that will give them confidence they are controlling their risks effectively and comprehensively. They also wish this ‘system’ to enable them to treat risks in the most efficient manner and, in particular, to inform and help them with decisions about changes they propose to make themselves and externally-driven changes that could influence how they do business and how successful they are.

Ultimately, the leaders of each organisation, its stakeholders and its shareholders all require tangible assurance and ‘proof’ that risk is being managed effectively and efficiently to protect and enhance their investments and their interests.

The move away from fragmented and specialised approaches for the assessment and treatment of different types of risks to the adoption of an organisation-wide approach to risk management starts with a paradigm shift in thinking about risk: from risk as a bad thing involving loss and harm, to something implicit in the achievement of objectives that has both positive and negative consequences. In Broadleaf we base our work largely on the International Standard, ISO 31000:2009, which defines risk simply as:

‘the effect of uncertainty on objectives.’

This holistic, strategic and comprehensive approach to risk management is called Enterprise Risk Management (ERM) or Enterprise-Wide Risk Management (EWRM). The general approach to ERM generally follows certain principles:

1. **Embedded:** Risk management processes are integrated into key organisational processes, particularly those linked to strategic planning, change management, post-event learning and assurance.

2. **Consistent:** Similar processes are used across the organisation for the identification, analysis and evaluation of all types of risk. This is normally established by the creation and setting of performance based standards.
3. **Holistic:** When risks are assessed, all types of risk are considered at the same time and there are no risk-based silos.

2 The Benefit of ERM

The benefits achieved by organisations that have adopted ERM are:

- Having a consistent and defensible basis for risk-based decision making, particularly where capital is expended or liability is incurred;
- Ensuring the success of change activities;
- Enabling the organisation to pre-empt and capitalise on external changes, such as those involving markets, competitors, customers and regulators;
- Stimulating managers to focus on and give priority to actions that aid and enhance the execution of business plans and objectives;
- Protecting the organisation from major incidents and losses;
- Enhancing tactical moves to identify and seize opportunities;
- Reinforcing accountability for risks and for controls, and the checking and assurance of controls;
- Providing a sound basis for assurance and corporate governance reporting on risks and controls.

Most importantly, in time ERM leads to a significant change in culture as the organisation and its managers engage and focus on activities directly related to ensuring the achievement of corporate goals and objectives.

3 Making ERM Work

To achieve effective ERM and realise all its potential benefits takes time, the investment of effort and resources, and a period of sustained management commitment. Organisations and their employees need time to change their habits and adopt different ways of working and thinking, and continuing support, encouragement and training are needed. As with many business activities, it is unwise to expect significant returns with little or no investment.

In our experience, successful implementation of ERM requires:

- Clear ownership and support by executive and line management;
- A well planned implementation process;
- Clear links between the risk management process and the business;
- Strong skills, particularly in change management, in those leading the process;
- Flexible systems focussed on substantive business outcomes.

While risk management is essentially simple, getting an organisation to adopt good, consistent approaches and then sustaining them requires skills and understanding in both risk management and organisational change. Our experience is that those charged with the task of introducing ERM must possess or have access to both these attributes if the implementation is to be successful.

4 Starting Up and Sustaining Effective ERM

It is our experience that using a contractor with a commercial pre-prepared ‘framework package’ to facilitate a series of risk assessment workshops is highly unlikely to achieve an efficient and sustained risk management process. On the other hand, taking time to develop a customised framework, tools and methods that reflects an organisation’s needs, risk profile and organisation structure and then training risk management champions – who roll out the framework and embed risk management through a top-down engagement process – normally achieves the most rapid take-up and long term ownership of risk management by a management team.

This is why Broadleaf prefers to partner with its clients, to coach their staff and to provide mentoring and support. We work with the organisation’s line managers and risk management specialists, building upon their skills and experience, not replacing them.

The key criteria are to ensure that risk management processes are relevant to business needs and that their use creates early and obvious benefits and gains. Governance reporting should be designed to be incidental to the process of good risk management, which should be focussed on the management of change, not on the production of audit committee reports.

Our general approach to helping out clients involves a 10 step process, shown in Figure 0 and described below:

1. Achieve an unequivocal Executive and Board mandate for the program with a full appreciation of the implications of the changes required at all levels of the organisation.
2. Undertake a gap analysis and maturity evaluation against recognised standards to take stock of what is already present and the gaps and organisational needs.
3. Develop a carefully tailored framework description based on the risk management process and also of the organisation context and framework necessary for ERM to occur and be sustained – Figure 1 shows the generic architecture we use that satisfies Clause 4 of ISO 31000:2009. Workshop and develop a risk management plan to implement the framework.
4. Develop and gain senior management agreement on a set of performance-base standards that codify the framework.
5. Develop practical tools and best practice methods that can be used to satisfy the standards.
6. Create a risk management information system, tailored to the framework and organisation, that enforces accountability for risks, controls and tasks, supports control

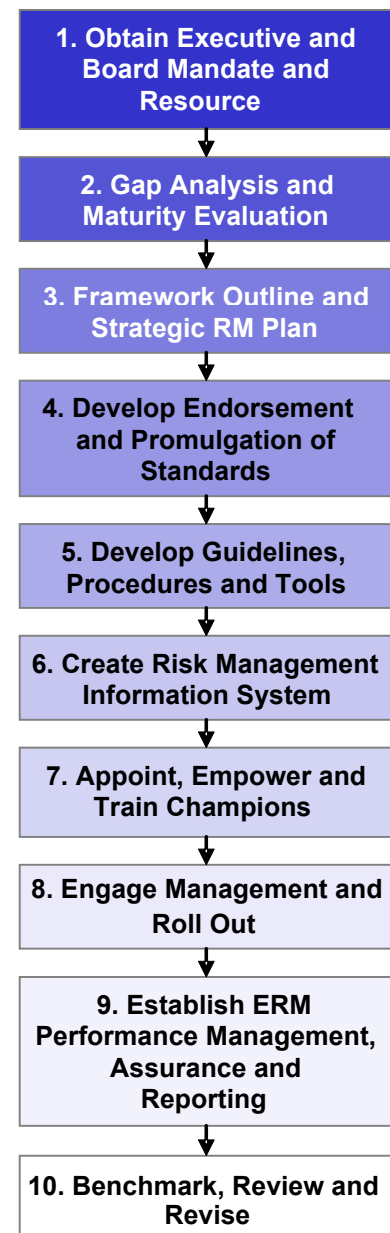


Figure 0: 10 steps for successful ERM

- assurance and enables efficient risk management performance management and reporting.
7. Cause Champions to be appointed within the organisation and trained with the confidence, skills and local management support to roll-out the framework.
 8. Help Champions engage local management and roll-down the framework, generating risk registers and risk management plans.
 9. Establish a process and structure for RM performance management and reporting, including committees and review groups, reporting templates, KPIs and performance measures.
 10. Periodically, review benchmark with external best practice and revise the framework.

5 Broadleaf's Services

Broadleaf is working with many large organisations in the commencement and continuation of ERM. We help organisations to achieve and sustain tailored approaches to ERM that suit them and which adapt as the organisation and its strategic objectives change.

Our practical experience base is unique and our many service offerings include:

- ERM planning;
- Gap and maturity analysis;
- Framework development;
- Policy, Standard and Guideline drafting;
- Risk management information system specification, procurement and deployment;
- Risk assessment facilitation;
- Development and delivery of risk management training;
- Risk based audit and assurance planning;
- Risk management performance management;
- Governance reporting and assurance;
- ERM framework benchmarking and review;
- Training and mentoring of risk management specialists in all aspects ERM and its implementation.

6 Contacts

If your organisation requires more information on Enterprise Risk Management please contact one of the members of Broadleaf shown below. More information about us and what we do is provided on our web site at www.Broadleaf.com.au.

Grant Purdy
Purdy@Broadleaf.com.au

Dr Dale F Cooper
Cooper@Broadleaf.com.au

Dr Stephen Grey
Grey@Broadleaf.com.au

Geoff Raymond
Raymond@Broadleaf.com.au

Mike Wood
Wood@broadleaf.co.nz

Phil Walker
Walker@Broadleaf.com.au

Figure 1: Generic architecture for ERM

