

A group of rock climbers is ascending a steep, craggy rock face. The climbers are wearing helmets and harnesses, and are using ropes and gear. The scene is set against a clear blue sky. The text is overlaid on the upper portion of the image.

Enterprise Risk Management and the New Market Realities

Five Points to Help Achieve High Performance

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Climbing out of a recession can be heavy going. At the same time, it can be a stimulating wake-up call. What companies are waking up to in the aftermath of the financial crisis is a complex world announcing, loud and clear, that global market conditions are not what they used to be.

Welcome to a new decade. You are now living in a world of new market realities. And the landscape of challenges is daunting. Credit markets are dramatically curtailed, supply chains insecure, consumer confidence shaken, wealth destroyed, markets volatile, competition altered, data streams expanding exponentially, global instabilities abundant. Still, amid these new market realities every company is under pressure not only to maintain cash flow but also to get back to growth.

To succeed, companies will need adaptive approaches, sharpened competitive instincts and effective navigation tools.

The good news is that the challenges hold as much upside as downside. And if ever there was an opportune time for high performance in enterprise-wide risk management, this is it. Because in addition to identifying, assessing

and managing risk, as it always has, enterprise risk management also has the ability to drive value in the business. It can help companies claw their way out of the recession and recover sustainable profitable growth.

There is no mystery about how enterprise risk management does that. In this shifting new market setting, it offers an additional perspective that might have been missing previously. It helps a company look a few steps beyond today and structure a solution for the emerging horizon. It allows a business to better understand what drives its risks and the sensitivities of its products and services. With that broader understanding, companies can withstand shock and increase the sustainability of profitable operations. What makes this possible is the fact that enterprise risk management equips the company with the right information to make better decisions.

Competing in a world of new market realities

Where does a company find its competitive edge in a demanding time like this? It finds it exactly in this preparedness for an uncertain horizon. When competition is unforgiving and ever accelerating, the advantage goes to those who look ahead and structure a solution to buffer against external shocks.

This aligns precisely with what executives in Accenture's 2009 Global Risk Survey say they expect of their risk management. Of the 250 participants in this study, including chief financial officers, chief risk officers and risk leaders from the world's largest enterprises, the majority say they indeed expect risk management to have a major impact on sustainable profitability (61%) and competitive advantage (53%).

But just as enterprise risk management comes forward as an important economic recovery and competitive business tool, many executives are haunted by misgivings about their experiences with this capability. In fact, in that Accenture 2009 Global Risk Survey, fewer than a third of the executives say they believe they are very effective in managing their risks.

Instead, many companies view their enterprise risk management initiatives as languishing and ineffective. What's behind that disappointment? Accenture finds common themes in companies around the globe that may account for this lack of enthusiasm.

For one, companies largely underutilize their enterprise risk management capability. Many are focused on merely complying with regulations rather than finding the actual drivers of risk in the organization and leveraging that insight to achieve business advantage. In these cases companies are not using risk management to help make decisions that could improve the effectiveness of their operations. In some cases, executives see risk

management overlays that increase the internal business burden, slowing them down and wasting corporate resources on an initiative that is not adding value. Either way, disappointment is understandable. At this point, some hard decisions need to be made about the role of the company's risk management program.

Typically companies that are dissatisfied with their enterprise risk management have hit one or more of five barriers in the last few years. Any one of these, listed below, can prevent the company from capitalizing on its risk management capabilities, insights and decision-support processes.

- The company may be stuck in risk assessment. Enterprise risk management is treated largely as an academic articulation of current risks, not a supporting tool for creating value for the business.
- Risk management is viewed as an "extra" rather than an integral part of the business thought process. The general attitude is, wait long enough and this "*initiative du jour*" will go away.
- Leadership is not sure how they are supposed to make use of risk management. The governance structure is not set up to fully consider and take action on the risks that have been determined.
- Reporting systems do not produce the right information in a timely way to provide direct decision support.
- Risk management leadership does not have a clear view of the value this capability can add and fails to deliver a clear message on how it will tangibly impact profit and loss.

Because of these obstacles, many enterprise risk management programs are less than prepared to succeed in the face of new market realities. They let slide the opportunity that effective enterprise risk management offers to grow and sustain the profitability of the business.

Five important points towards effective risk management capabilities, insights and processes

- Break out of the value fog.
- Establish clear risk governance structures.
- Support your risk efforts with timely, insightful and readily accessible reports and information flows.
- Ensure that you have the right analytics in place.
- Be bold.

Clear governance, by facilitating shared responsibility, provides the eyes to bring risk management beyond just silo-based programs to develop broader corporate-wide value-adding capabilities.

The way forward: five important points

What, then, is the way forward in a world of new market realities? How does a company ensure that its enterprise risk management is prepared for the challenges?

For companies that are ready to capitalize on effective risk management capabilities, insights and processes, Accenture offers five points to help achieve high performance. Taken up, these five can begin the transformation from basic enterprise risk management to value-adding, risk-based decision support. What the company can expect in the end are better business results.

1. Break out of the value fog.

If you don't care where you get to, it doesn't matter which way you go. So observed Lewis Carroll's Cheshire Cat in *Alice in Wonderland*. And so it is with enterprise risk management.

This one is critical. Define the value you expect your enterprise risk management efforts to yield in the organization and hold the program accountable for getting there. Even the simplest of these efforts should be adding value by supporting risk-based decision making (measured by business results), increased identification of opportunities and enhanced strategic planning. For greater value, the program might be targeting predictive analytics and better leveraging of the company's risk-bearing capacity to fuel growth and profitability.

Some companies initiate enterprise risk management because of external interests or Board pressures, and this may be perfectly appropriate. But to contribute to growth, the risk program must put together a value proposition that is independent of those requirements. Does that value come from decreasing earnings volatility?

Supporting cash flow enhancement? Define clearly what enterprise risk management can bring to the table. This is the first step out of the value fog.

2. Establish clear risk governance structures.

A logical governance structure, with its clear delegation of authority, makes it possible to see how decision making flows in the organization and to track what decisions are being made at different points. This increased visibility supports a systemic view of risk. With that, the company can see what is happening in all areas of the enterprise and make linkages that lead to value-adding decisions. Governance, in this way, is an important enabler and supporter of the risk program.

In a company with a clear governance structure, upper levels of leadership can review management plans prepared by employees closest to the risk and provide enterprise-level insights. With

that elevated view, it is possible to break down barriers in the organization and connect appropriate resources, realigning them if necessary.

Clear governance, then, by facilitating shared responsibility, provides the eyes to bring risk management beyond just silo-based programs to develop broader corporate-wide value-adding capabilities.

But when roles and responsibilities are not well defined, problems emerge. It becomes unclear what actual results are expected. Implementation may lack direction. And the risk of overlooking both serious and systemic threats grows significantly higher.

There is, of course, no predetermined "right" governance structure that fits every company. The actual mechanisms vary with the company's operating model and culture. But these basic principles for effective governance apply in every enterprise.

- The company understands that risk management efforts have direct business results, and responsibility for those results is clearly placed. That could be a strategic, operational or functional lead, a director or a vice president, but the points of responsibility are well defined.
- A governing body regularly reviews risk objectives, management progress and emerging trends, issues and results. That body provides counsel and is authorized to require redirection and allocate supporting resources.
- Risk management effectiveness is included in risk owner and governance body performance metrics.

There is no silver bullet that will transform management effectiveness overnight. But these governance principles are a foundation. Without them, one thing is clear: an enterprise risk management program will not be able to achieve its highest possible value to the organization.

3. Support your risk efforts with timely, insightful and readily accessible reports and information flows.

This is a common failure point in many companies. The problem is not a lack of reporting but rather a lack of timely, focused and relevant reporting. The company's reporting system should feed the right information at the right time to the right decision makers. Consistent and timely reporting needs to be put in place to include metrics, not just on action taken, but also on their effectiveness and what comes next.

At a minimum, any good enterprise risk management reporting should include these elements:

- **Current status and progress of risk management efforts.** These should be directly linked to appropriate metrics.
- **Emerging trends and indicators, both internal and external.** Changes in the risk environment, indicators of potential issues and new opportunities are included here.
- **Escalation of urgent issues.** If warning indicators move in a direction that suggests a need for change in the company's approach to a risk, or if the severity, likelihood or nature of the risk changes, that risk is elevated for discussion and more urgent attention.
- **Recommendations for additional interventions and/or modified mitigation approaches.** If metrics indicate the needle is moving the wrong way or is out of the tolerance range, there should be recommendations on what action is needed.

But even with the right information and timely delivery, a reporting program will have little impact unless it is directly linked to a clearly defined structure. That requires identifiable risk ownership within the organization, discussed in the previous point. Good reporting is an enabling and supporting tool for risk governance. The two together form the backbone of enterprise-level risk management.

4. Ensure that you have the right analytics in place.

Making decisions can sometimes be easy. But making *good* decisions is usually hard. One indisputable fact is that the likelihood of making the best decision is directly related to the quality of data and analysis that supports it.

There is no shortage of powerful, analytical risk management tools and techniques available to support decision making by the company. The question is, are these tools and techniques actually being used at the right time and place to yield insightful decision support? If not, the reason often gets back to the company's underestimation of what enterprise risk management can do for the business and how enhanced predictive analytics can add value. The power of analytics is that they can take the company beyond mere compliance to a fuller understanding of risk and how to leverage it for business advantage. The right analytical tools can lead to better outcomes, such as mitigating downside risk and providing upside opportunity recognition. But when companies fail to take advantage of that power, the potential of enterprise risk management is undermined. This feeds the dissatisfaction companies sometimes feel with their risk management efforts.

Accenture finds that many—if not most—companies tend to underutilize risk analytics. They do risk identification, basic mitigation and action reporting to describe what's happening in their business. They generate information—and no more.

With enhanced analytics, the value contribution ratchets up as companies seek to understand the "so what" from their available data. Companies with strong predictive analytics capabilities can generate insights that help shape business opportunities and manage risk more effectively. Beyond compliance, analytics provide insight on understanding and managing risk. For example, ongoing risk trend analysis can help identify forward-

Enterprise risk management at one global consumer products company

A large global consumer products company was interested in deriving more value from its enterprise risk management efforts. Specifically, the company wanted to increase the tangible financial benefits of risk management across a broad range of operations, product types and geographies. They embarked on a multi-faceted approach with three primary objectives:

- Link enterprise risk management value-added directly to operational decision making;
- Establish consistent oversight and reporting;
- Ensure risk management was a part of managerial thought processes, not an overlay.

The plan involved several concurrent streams of activity. One was mapping strategic and operational plans to both direct and indirect risk-management value added. This required identification

of risk types across service and product lines, causal analysis of how those risks impacted business plans and quantification of the level of exposure. The big difference between this and other company's enterprise risk management programs was that this one used that analysis as a template for pushing risk-weighted management decisions. The case was made for direct financial value added and for holding management, to that type of evaluation in all planning exercises. In effect, the company institutionalized assessment of risk.

Once the initial value proposition was in place, the company worked to clarify lines of authority on risk decisions not only to align with existing delegation, but also to expand roles and responsibility definitions. This effort in turn drove enhanced analysis for decision support, streamlined decision-making processes and aligned performance evaluations with actual results.

The final element was to establish clear and efficient reporting processes to support the new value proposition and governance structure. The new reporting included risk initiatives alerts relative to new risk developments and ongoing results evaluations. Additionally, reporting was integrated with existing operational and strategic reporting systems.

Now, several years into this transformation, the company attributes a direct and significant contribution in their growth and profitability to its enterprise risk management program. The company has now elevated enterprise risk management in all management forums and requires risk weighting of essentially all new strategic and capital planning.

While the initial effort was considered bold at the time, the results make the case.

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looking opportunities for capitalizing on unique strategic positioning. Analysis of risk-bearing capacity can shed light on the most effective use of economic capital and its link to risk appetite and tolerance. Scenario analysis can be readily employed to shock test mitigation strategies. There are numerous, powerful analytical tools available to support strong enterprise risk management. But if they are not used, they cannot add value.

5. Be bold.

Here is a question for chief financial officers, chief risk officers and risk managers:

Do you believe that effective risk management can provide a true competitive advantage and significantly impact both the bottom line and future growth?

If your answer is yes, you very likely grasp your obligation to shareholders to seize risk management's potential for adding value to the business.

It is no more than what the enterprise needs to compete in the face of new market realities and no less than what shareholders expect of their company.

If your answer is no, then the rational move is to stem the investment in what you perceive to be a wasteful endeavor. It is time to end the affair with risk management as an add-on, an "initiative *du jour*" and direct those resources elsewhere. If it doesn't add value, why do it?

But for the chief financial officer, chief risk officer or risk manager who sees that this is no time to retreat from all possible paths forward for the company, then this is the moment to be bold about enterprise risk management.

What action does this call for?

First, define the value that enterprise risk management can bring to the business. Get out of the value fog. This is the moment to go to the executive team and present clearly and

emphatically the reasons why the program is taking a bold path forward and what specific value it is expected to deliver.

Second, challenge the value and effectiveness of executive decisions. If they are being made without strong analytics support, those decisions are not going to be as good as they need to be. This means challenging the existing decision-making processes and—importantly—showing why risk-weighted decisions are better decisions.

That involves preparation, of course. It means first determining the real value potential of the company's enterprise risk management program and what it takes to get to that next level of value added. Capabilities have to be built. And risk management must work directly with operational leadership to design effective approaches.

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What steps from here?

More than ever, enterprise risk management is an important tool for a company that is determined to succeed and perform competitively. It clarifies the nature of the challenges and risks facing the company's investment. It offers the prospect of growth in profitability through better decisions. As a result, the company more actively shapes its own future.

Two enterprise risk management roads diverge here. One is the path of complacency, where value is left on the table. In this scenario, the company's risk management cannot support the kind of decisions that improve the effectiveness of the company's operations. This is the path of underutilized capability.

Or there is the road that beckons toward enhancing the value of the business. On this path, enterprise risk management is used as a competitive tool to support business decisions.

In a volatile market on an uncertain globe, risk management creates buffers so that the company is robust against a wide range of uncertainties.

We have offered five points to help achieve high-performance enterprise risk management. Heeding these can help companies manage their risks as they navigate new market realities—and assure that what they know is applied for the benefit of the business.

No matter how turbulent the times.



About the Author

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Craig is executive director—Risk Management, Retail and Public Service areas. Based in Washington DC., he has over 25 years of global, corporate and consultancy experience in the retail, consumer products and energy sectors. He has extensive expertise in all areas of enterprise risk management, including risk analytics, governance/reporting and integrated process management. Additionally, his work on enhanced integration of risk into key business processes, risk appetite, and leveraging risk bearing capacity, helps position companies to increase opportunity capture and profitability.

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About Accenture Risk Management

Accenture Risk Management works with clients to create and implement an integrated risk management capability designed to gain higher economic returns, improved shareholder value and increased stakeholder confidence in an uncertain global economy. Our work helps companies cost-effectively align risk and reward to fuel growth and drive better business performance while also protecting the interests of shareholders and other key stakeholders. Operating globally across a wide variety of industries and functions, we provide clients with a unique combination of resources—strategic consulting, systems integration and technology delivery at scale, outsourcing and change management services—to embed risk management throughout the enterprise.

