

Towards ERM - Enterprise Risk Management: A protective Umbrella

**Karl Pringle | Global Alliances Director
Strategic Thought Group**

Enterprise risk management (ERM) is increasingly recognised as being among the most important corporate governance and management tools, as the need for transparency grows. ERM is a means to identify, analyse, evaluate and respond to risk across an organisation. Yet many people still work in isolated silos when it comes to risk, audit, business continuity, insurance management and – most surprisingly – business planning.

The days when risk management could be carried out in a business independently, in project, department or divisional silos are gone. It is no longer sufficient for risk managers to identify a set of risks and file them on a risk register. The key to effective risk management in these days of extended supply chains, global recession and pandemics is transparent communication across the organisation, facilitated by a common risk evaluation language. A successful business culture should support every manager taking responsibility, not only for identifying and managing risk in their own area but also for understanding its implications in the wider context of the business and communicating the risk for consolidation, evaluation and potential reassessment.

In modern business, risk information should be transparent and available 24 hours a day, seven days a week. It needs to be easily communicated across the management hierarchy. Relevant risk data must be shared throughout the business and with consortia partners if needed. So a common enterprise-wide risk management solution is critical. An ERM system can codify, communicate and manage action plans on risks from the outset and throughout their life cycle, in a standardised way using a common language. It will identify emerging risks unseen at lower levels, enable best practice in mitigating risks to be shared, highlight opportunities and provide more accurate risk-adjusted business planning and corporate performance measures.

Improved decision making

An ERM solution can take advantage of best practice within a project, programme or organisation and share this knowledge to raise standards across the business. But this is only possible if a consistent process is in operation to capture, quantify and qualify different types of risks to enable effective comparison of projects, programmes and divisions. This common quantification language facilitates the aggregation process, so information is presented in a useable format to the right levels of management.

For example, board members cannot be expected to work through thousands of risks to understand the true threat to a particular high level objective, so the aggregation and presentation of the relevant risks is vital. But it is still important to be able to drill-down

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and search the data for underlying information. A powerful filtering and prioritisation mechanism, for slicing and dicing the data is essential. Establishing risk categorisation breakdown structures within the recording and search functions will allow common risk themes to be identified across projects, programmes or organisation-wide.

Building information for corporate risks from all areas of the business means better transparency and informed, evidence-based decision making. In addition mitigation strategies can be put in place to deal with corporate risk and address the many connected risks. Under a “siloe” approach these opportunities for shared mitigation plans and knowledge are impossible.

ERM software such as Active Risk Manager (ARM) from Strategic Thought fulfils the growing need for transparency of risk data and for board level information to enable risk-adjusted business planning. The system



can be implemented incrementally, delivering value at each stage to ultimately provide an enterprise-wide view. Spreadsheets, the traditional way of capturing risk information, are labour intensive, error prone and lack an audit trail. With a true ERM solution management can be confident of a clear line of sight with current and accurate information on which to base decisions.

Insurance plays a part

With ERM providing better business decision making, the next consideration should be what other control mechanisms are there within the organisation? This requires closer cooperation between the risk department, business assurance function and internal audit. The aim should be to create synergy by facilitating the development of future internal audit programmes with a much closer link between the control of mechanisms and identified risks and opportunities.

It is also necessary to establish whether agreed mitigation strategies are the best available within resource limitations. Traditionally insurance was seen as a function separate to risk management; in some cases the only method of managing risk. This view is changing and insurance is increasingly seen as a part of the enterprise-wide risk management and mitigation process.

ERM can provide the information to assess the efficiency of corporate insurance programmes. Are they appropriate or is the company paying too much? Is there duplication of

coverage or gaps? Would some risks be better self-insured? Would moving coverage to fewer suppliers bring savings? With an ERM system to provide evidence, brokers and consultants can review whether a company has a grasp of all its potential risks and the right strategies in place to deal with them. The result should be a reduction in insurance premiums. Even a single digit percentage saving can represent a significant amount for major organisations and should be taken into account when calculating the overall return on investment of implementing an ERM programme.

Business Continuity

Too often the business continuity function resides outside the ERM umbrella. This can be a mistake because business continuity is a type of risk and belongs under it.

In terms of practical applications many companies have significant supply chain risk. With both internal and external companies global, any interruption or break in the chain can have a catastrophic impact to either an individual project or to corporate goals and reputation.

So understanding the risk associated with critical elements such as individual produc-

tion facilities and suppliers is crucial, and as important as knowing that business continuity measures are in place in the event that a critical element fails. Only by taking the enterprise-wide perspective can the criticality of certain suppliers be identified. Companies recognise the financial impact of losing a key supplier and putting risk mitigation strategies in place. They are considering options such as increasing buffer stock holdings, dual sourcing, building additional production capacity or improving insurance cover.

Realising the benefits

To achieve real benefits from ERM the final piece in the puzzle is the integration of risk management data with the strategic and financial planning functions. There are different communities within every organisation but all use risk and opportunity data, often assessing it from different directions. The financial and strategic planning communities take a top down approach, looking at what impact risks and opportunities will have on future forecasts. Other communities, such as those involved in operations and major projects will do a bottom up assessment of risk; how will technical, programme and financial risks, af-

fect the outcome of the operation, the ability to budget accurately and deliver to deadlines? All communities need access to the same type of risk information to view the bigger picture. Only with the aggregation of all relevant data can better decisions and forecasts be made.

With the right system to support risk management and all user communities embedded throughout the enterprise, each relevant function can be brought under the ERM umbrella. When ERM works well, programme managers or board members are better informed to identify acceptable levels of risk, make the right evidence-based decisions and plans. Smart businesses now seek to drive real value from ERM to meet business objectives through transparent communications, a robust ERM solution and by opening the ERM umbrella to cover the whole organisation. ■



Karl Pringle is the Global Alliances Director for Strategic Thought Group Plc, the owner and manufacturer of Active Risk Manager, (ARM), the world's leading Enterprise Risk Management software solution. Mr. Pringle is responsible for channels to market and for aligning partners with customer ecosystem requirements. Karl was educated in Canada at the University of British Columbia and holds MBA Executive Diploma's from The Kellogg School of Management in Chicago.

FOR THIS MONTH, CMCS WOULD LIKE TO THANK:

NEW CLIENTS:

- Abdullah A.M. Al Khodari Sons
- Abu Dhabi Commercial Engineering Services (ADCE)
- Al Ain Distribution Co (AADC)
- AlKawther Industries Co. Ltd.
- Al-Osais Intl Holding
- Arab Academy of Science and Technology (AAST)
- Arab Contractor
- Arabian Consulting Engineering
- Atelier 21
- Bioresources Developmet & Conservative Programme
- Cham Holding
- Datel Systems & Software Company
- Dayim Punj Lloyd
- G.P. Zachariades Civil Engineering & Building Contractors
- Gensler
- Ghantoot Electrical Projects Division
- Giffin Traffiks
- Gulf Classic General Contracting
- Gulf Flour
- Industrial and Management Technology Methods Co.
- Kentech Group Holdings
- Kuwaiti Manager Company
- MARBU Contracting
- Mediterranean Pharmaceutical Industries
- Ministry of Defence
- Peninsular Petrotech
- Petro Steel
- Petromaint
- RGCK Association
- Robodh Contracting
- S.A. Baytur
- Saud Consult
- SETE Energy Saudi
- SOFCON
- Square General Cont. Co. LLC.
- Talaat Mostafa - Madinaty
- Tekfen Construction
- Tekton
- Unicorp
- United Gulf
- Urbis Holdings

RETURNING CLIENTS:

- 5 Pioneers
- A&P
- Abwab Real Estate Ltd.
- ADALI HOLDING-Turkey
- AECOM
- Al Habtoor
- Al Habtoor-Murray & Roberts JV
- Al Jaber and Partners
- Al Naboodah Contracting
- Albanna Engineering
- ALEC
- Amana
- Arkan
- BEMCO Contracting
- Borouge
- BovisLend Lease Int.
- Brookfield Multiplex
- Butec
- Carillion Alawi
- CCC
- Construction Development Company
- Dar Al Handasah
- Dodsall
- Dolphin Energy
- Drake and Scull
- Dubai World
- ENEC
- Exterran
- Fertil
- Force 10
- GASCO
- GPZ
- Group Five
- Hochtief
- Hyder Consulting
- Kerzner
- LAU
- Louis Berger Group, Inc.
- Ministry of Housing
- Morganti
- NAKILAT
- National Petroleum Construction Co.
- Odebrecht
- Oman LNG.
- PAHW
- Petrofac International Ltd.
- Qatar Chemical Co.
- Qatari Diar
- Qatar Project Management
- Qatar Real Estate Investment Co
- QIQ
- Samsung Engineering
- Saudi Oger
- Serka Construction
- Sinopec
- Taisei
- Tariq Al-Ghanim Gen Trading
- TDIC
- Tebodin Middle East Ltd.
- Technip
- Technologists Inc.
- Tekfen Construction
- Teo A. Khing
- Trett Consulting
- Turner Projacs
- UTS Kent
- Voltas
- Worley Parsons