

A large, stylized blue chevron graphic pointing to the right, with the text "High performance. Delivered." centered within it.

High performance. Delivered.

Risk Management Models: Creating Value Through Risk Management Podcast Transcript

The Accenture High Performance Business Podcast Series.

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In the past, risk-management practices have often been a response to a flare-up in the company or to regulatory requirements. The perils of our time challenge the adequacy of that approach. Companies recognize a risk-management program integrated across the enterprise represents not just a protective tool but a competitive edge in an uncertain world.

Hello, I'm Paul Bushet. In this podcast, "Creating Value through Risk Management," Accenture details three

types of risk management models available to companies at various points in their maturity. We then outline five steps every company can take to ensure their risk management program helps them in their pursuit of high performance.

Risk management can improve bottom lines as well as company reputations, but much depends on finding the right strategy for a particular company.

No one model is obviously superior. After all, not all companies face the same risks.

The most advantageous choice for a particular company depends on what it wants its risk-management capability to accomplish.

The risk-maturity level of the organization advances as it moves along the spectrum—from a start-up company that wishes only to comply with regulations to an established corporation seeking to enhance the value of the entire enterprise.

In the most basic, compliance-driven model, the risk-management capability may only include a few key areas, such

as trading and treasury groups. A more advanced model gives a high-level view of the company's overall risk profile, allowing management to incorporate this into decision making.

The First Model: Risk management for compliance—In this model, the risk-management agenda is set by regulatory requirements. There are insufficient processes, roles and responsibilities to actively manage known risks. Technology is limited. The result keeps the organization compliant, but makes it vulnerable to unforeseen risks. Often, it lacks control over even expected risks.

The Second Model: Risk management for value protection—Additional controls and processes come into play here. This level of risk maturity is characterized by many different silo-ed risk functions, each using its own metrics, rules and measures. Each focuses only on its own unit or region. There is no aggregated view of the overall risk profile of the company. This model mitigates expected risks, and protects to a limited degree against unforeseen risks.

The Third Model: Risk management for value enhancement—An independent risk committee is formed to monitor risks enterprise-wide. Official risk policy and tolerance levels are based on current information, not simply on historical figures. Standards are set up across the enterprise, covering all dimensions of the business. With this broad analysis, the enterprise is almost fully protected against unforeseen risks. The company gains a competitive advantage because it has the ability to take on more controlled risk.

In choosing between risk management models, a company is deciding what kind of risk-management culture it wants to embrace. Does it want to simply comply with regulations? Or does it want to be visionary, adjusting risk management for what it becomes as it grows?

Choosing the appropriate risk-maturity model positions the company to address its risk management needs effectively. How? With a five-step framework for optimal risk management strategy.

Step One: Establish strategic guidelines. What does the company want a risk management program to do? Finding out means interviewing high-impact stakeholders such as the board of directors, the C-suite, project sponsors and relevant executives. What do they expect of the risk program? The role of the risk-management team is determined here. Will it function as advisor to senior management, actively providing recommendations to the risk committee? Will it be a controller, ensuring compliance? Or will the team be a manager supporting business units and helping perform risk analysis on their activities? It could be all three.

Step Two: Determine model directions. This step is about defining the risk appetite of the organization. How much is the organization comfortable risking? To answer that, the company must assess the full array of risks—market, credit, operational and strategic—and decide how each is going to be measured. What kinds of metrics and parameters will be used? How far does the company want to take that analysis? The parameters help the business determine current risk levels and how much risk they are willing to take on.

Step Three: Choose the model. Now the work gets more granular. Targets for each risk parameter are set. How much value does the company want to have at risk on any given day? To track against these targets, key performance indicators are used to pinpoint the kind of risk being taken and whether it is within the company's risk comfort zone.

Step Four: Perform gap analysis. If a company already has an existing risk function, risk management compares this program to the new risk strategy and maps out the differences. It takes the imagined world of the future risk program and analyzes what has to be done to get the company to that point. What are we missing? The gaps may be in governance, framework, methodology, people or tools. All types of risk are analyzed.

Step Five: Design a strategic road map.

This step begins the transition into implementation. It outlines the actions needed to turn strategy into reality, requiring high-level discussions on integrating strategy into daily operations. The result is a road map with initiatives for each functional area of the organization to put the new program in place.

As abstract as risk-management strategy can sound, it relates urgently to events on the ground. No one knows that better than today's corporations. There is nothing abstract about financially endangered enterprises collapsing in near-domino fashion, with reverberating consequences around the globe. Risk management has come to prominence because so much depends on it now.

The good news is that there are effective ways to identify, measure, monitor and report risk and make sure no limits are being breached. Risk management can be driven by compliance—or it can be visionary and manage risks in ever-more integrated ways. Choosing the latter approach, a company can use risk management to create higher value in the business.

Effective risk management always derives from the culture of the organization. With that culture understood, the chosen level of risk tolerance can be implemented company-wide. This can be a company where people know the limits. It can be a company that is venturesome, but it may choose to be incrementally so—assessing measurable results along the way. Processes and technology give a company's risk management a competitive edge. But at a fundamental level, getting the right risk culture to penetrate throughout the organization is one of the most valuable investments a company can make.

Accenture can help businesses on their journey to high performance through risk management. We can be with you anywhere on the continuum of risk management models. We can offer a team of people with deep global and industry experience—people pragmatic in their approach who provide insight and

guidance on putting strategy and risk management together. We know how to help you use risk management for all it's worth—and move you closer to becoming that high-performance business you want to be.

This concludes our Accenture podcast. We thank you for listening, and hope you found these insights worthwhile and stimulating. For more information about Accenture's research and experience in helping organizations achieve high performance, visit our High Performance Business Podcast Series.