

Finance & Performance Management

Finance mastery (II): Enterprise risk management as a key to high performance

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These days, all business is risky business. Threats to data and network security are everywhere, and failure of internal controls can severely damage the future of a business. Geopolitical and macroeconomic changes in any part of the world now affect every part of the world. The number of competitors in the marketplace constantly increases, and companies are constantly wary of rivals who might change the competitive rules at any given moment. Technologies evolve so rapidly that disruptive change always seems an existing threat. The scrutiny of regulators and stakeholders has increased dramatically, with hefty price tags attached to the failure to comply with new regulations such as Sarbanes-Oxley and Basel II.

Given the intensity and variety of business risks, it is no surprise that Accenture research has identified **enterprise risk management** as one of the essential capabilities underlying finance mastery today—the creation of finance organizations, processes and operations that support high performance.¹

Enterprise risk management is essential to optimizing shareholder return and increasing the value of an organization. A chief financial officer has a vital role to play within the overall risk management agenda in protecting business assets by anticipating and mitigating financial risk. Beyond that role, however, a CFO must also

work with the entire organization to create a culture that effectively balances risks and rewards, thus maximizing the value of the business.

Keeping pace

Unfortunately, the approach most organizations use to manage risk at an enterprise level has not kept pace with the growing complexity of the business and economic environment. Internal silos prevent the kind of communications that can keep all parts of the business apprised of what is happening in any part of the business. In response to changing regulatory and reporting demands, companies have adapted outdated tools originally developed for other needs. Many businesses, for example, still apply audit standards developed in the 1970s to assess and report on the effectiveness of their internal control environments. As companies struggle to meet reporting deadlines, they have diverted attention and resources away from delivering the information needed to make timely decisions and effectively steer the business.

The finance masters identified in Accenture's research take a different approach. They know that to meet the changing needs of the business, risk management functions must be developed at the enterprise level and deployed throughout the business in a scalable and flexible manner. By linking critical processes to key

¹ The essential capabilities of finance mastery—a value-centered culture, enterprise performance management, finance operations, capital stewardship and enterprise risk management—are explored in more detail in a new book from Accenture: *CFO Insights: Delivering High Performance*, by Mike Donnellan and Mike Sutcliffe (John Wiley & Sons, 2006).

risks, financial exposures and controls, these companies can manage risks within a more comprehensive environment. Furthermore, by monitoring the interdependencies among the processes and controls, with drill-down and analytical reporting capabilities, the masters embed risk management into routine performance management processes. In this way, enterprise risk management supports compliance requirements while also improving business performance.

A broader context

Companies that successfully leverage advanced enterprise risk management capabilities to drive toward high performance view risk management in an ever-expanding and broader context. Managing risk can mean everything from using financial instruments to managing specific financial exposures, from effectively responding to rapid changes in the business environment to reacting to natural disasters and political instability.

Within this wider understanding of enterprise risk management, three competencies are especially important.

- **Financial risk management:** Accurately calculating and proactively evaluating market, liquidity and credit exposures.
- **Operational risk management:** Continuously assessing the effectiveness of internal controls, measuring and identifying weak areas to mitigate the risk of failure of those controls.
- **Strategic and business risk management:** Assessing risks related to planning and management processes that support an enterprise's business plan and model; evaluating the impact of external and internal variables, such as market dynamics and major events.

These competencies also form the basis for an overall framework for enterprise risk management, enabling companies to address the unique character of different types of risk while also ensuring that

risks are mitigated in an integrated fashion and from an enterprise perspective.

Lessons from the masters of enterprise risk management

During Accenture's research into finance mastery, we learned several important lessons from successful CFOs about enterprise risk management.

- New kinds of governance and oversight structures are necessary to ensure that enterprise risk management operates effectively. For example, consider Jones Lang LaSalle, a leading global real estate services and money management firm. Lauralee Martin, chief operating officer and chief financial officer for the firm, chairs a global operating committee that includes members from the broader global business community, including regional COOs, legal, internal audit and risk. The committee meets monthly, reviews identified risks, and determines whether risks are isolated or if they should be mitigated from a broader perspective.
- Management must address regulatory compliance as part of an overall enterprise risk management framework, not implemented within silos. The financial masters from our study know that compliance initiatives and programs are not just a cost or a hurdle to be overcome, but opportunities to improve enterprise risk management and create a high-performance business.
- Risk management should be linked to performance management processes. By focusing on the critical processes and data requirements at each level of the organization, risk management can be embedded into routine performance management processes.
- Organizations can use risk management to increase shareholder value. Risk management and capital planning must be linked to optimize shareholder value and enhance the future value of the organization. Linking risk management to shareholder value can be measured reactively as projects are evaluated. Alternatively, finance can take a more

proactive approach. For example, Goh Choon Phong, senior vice president of finance of Singapore Airlines, ensures that finance works closely with the rest of the company. This partnering may involve a focus on cost control, but can also touch on the planning and decision-making process. In his role, he is trying to "move up the value chain." He notes, "Finance should be involved from the beginning as a business partner to the divisions, rather than only in assessing the financial returns of initiatives."

Risk management and the journey to high performance

Business stakeholders today are demanding that executive leadership actively and transparently manage the risk of generating promised results. Masters of finance are responding to those concerns by developing enterprise risk management capabilities at the enterprise level and deployed throughout the business in a manner that is scaleable and flexible.

Such a goal is not reached overnight. Effective risk management must be managed as a journey, with iterative phases of work informed by actual day-to-day experiences. In the end, that is the best path to mastery and high performance.

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