

# **Accountability Implementing an ERM Strategy which defines Responsibilities**

Alex Hindson  
Head of Enterprise Risk Management  
Aon Global Risk Consulting

**IRM ERM SIG**  
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# Accountability – My definition

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- ↳ the person who is ultimately held to account if an activity or process is not delivered.
- ↳ The 'buck' stops with them.
- ↳ In other words – they 'take the bullet'.

# Why is accountability important?

## Ex-Parmalat chief sentenced to 10 years

By Vincent Boland in Milan  
Published: December 19 2008 02:00 | Last updated: December 19 2008 02:00

Calisto Tanzi, the former chief executive of Parmalat, which collapsed five years ago in a fraud dubbed "Europe's Enron", was given a 10-year sentence by a Milan court yesterday.

## Adecco shares dive on audit fears

Global employment agency Adecco's shares have lost nearly half their value, diving more than 40% after it warned it may have accounting problems.



## AIG: the horror

By Robert Peston | 12 Feb 08, 08:54 AM

If you want to understand why the world's investment institutions are so jittery about the outlook for

Tuesday, 2 October, 2001, 04:40 GMT 05:40 UK

## Swissair accepts rescue plan



Swissair was already in trouble before the 11 September attacks

Swissair has accepted a partial rescue bid by two banks, in a last-minute attempt to avoid total bankruptcy.

## Lehman Brothers: Failure to seize chances led to a death spiral

By Julie MacIntosh in New York  
Published: November 25 2008 16:33 | Last updated: November 25 2008 16:33

The world's largest government regulator

## IT Factory's Bagger Super Sorry For The Massive Fraud

by Michael Arrington on December 12, 2008

17 Comments

The beginning of what promises to be a fascinating story (and possibly a Hollywood movie) around the rise and fall of Denmark's IT Factory is starting to emerge. In late November celebrated CEO Stein Bagger went missing in Dubai - it later turned out he abandoned his wife and child and fled to New York as his company fell apart.

He then borrowed a friend's car and credit card and took embarked on quite a road trip to California, where he promptly turned himself in to local police.



playbooks to the wind and

## Northern Rock to be nationalised

Northern Rock is to be nationalised as a temporary measure, Chancellor Alistair Darling has said.



From Times Online  
December 31, 2008

## Trials begin for executives accused in China's tainted milk scandal

Sophie Tedmanson

The former chairwoman of the dairy company at the heart of China's tainted milk scandal has gone on trial on charges of selling fake or substandard products.



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From Times Online

February 10, 2009

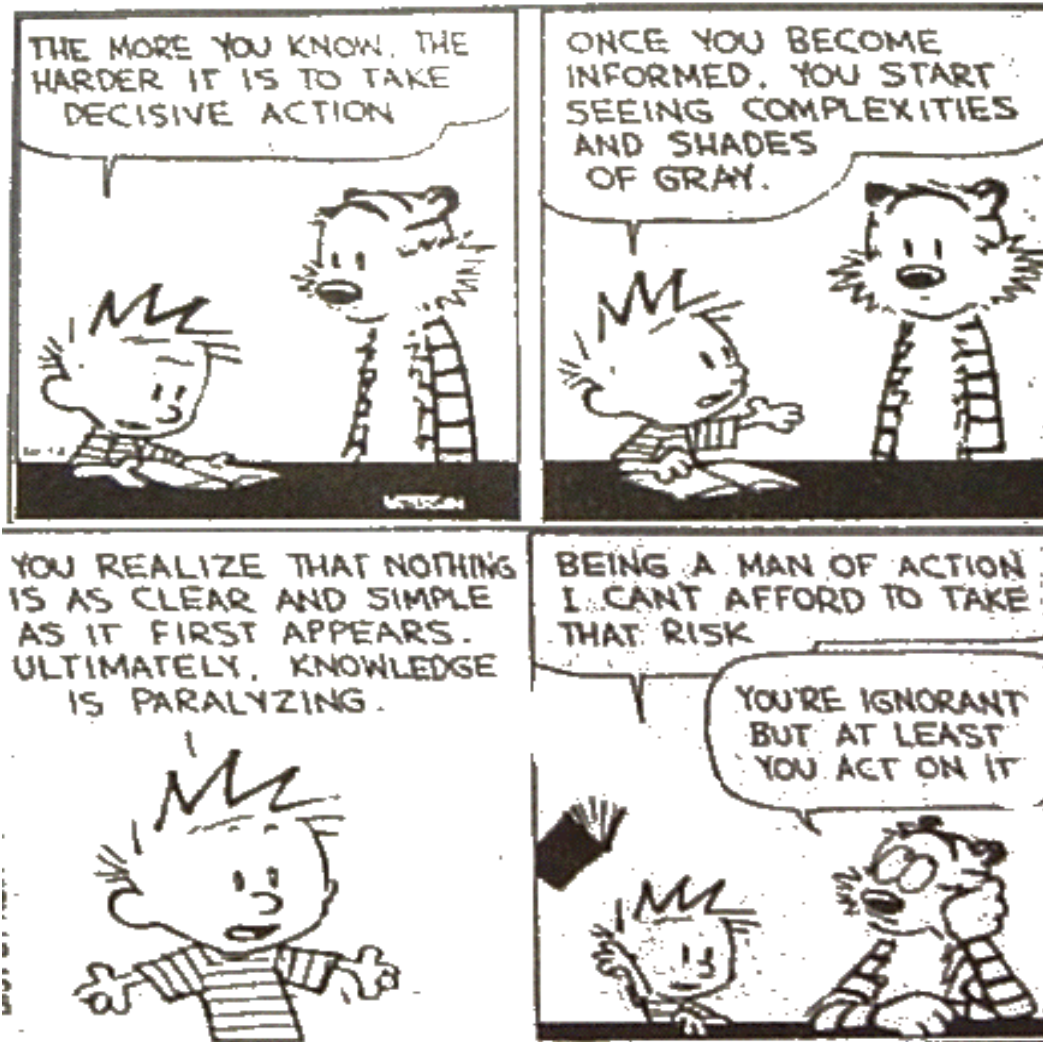
## HBOS sacked and gagged bank risk whistleblower

AON GLOBAL

# Risk Awareness & Accountability

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## CALVIN AND HOBBS



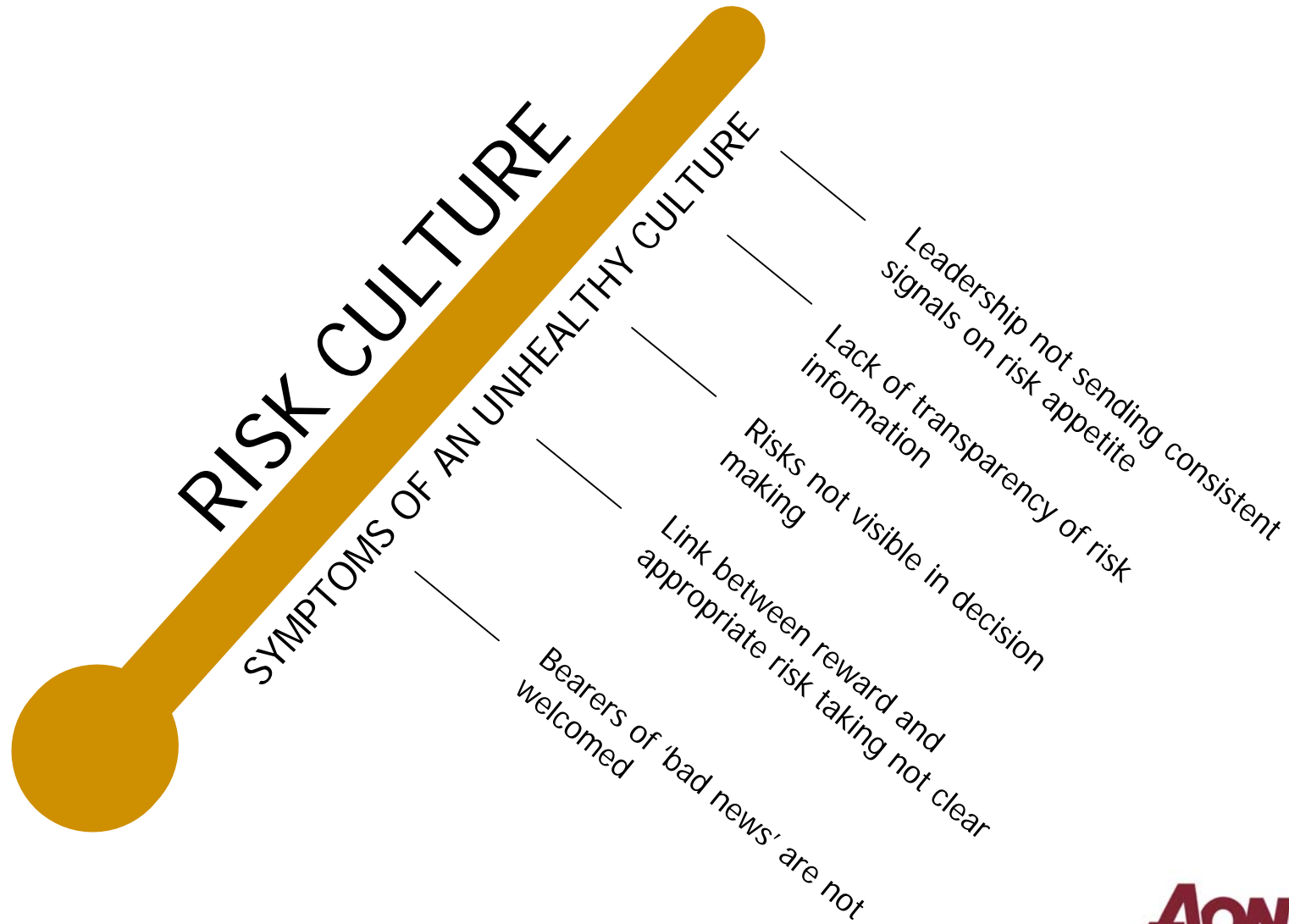
# Impact of unclear accountabilities



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# Culture sickness - The Diagnosis

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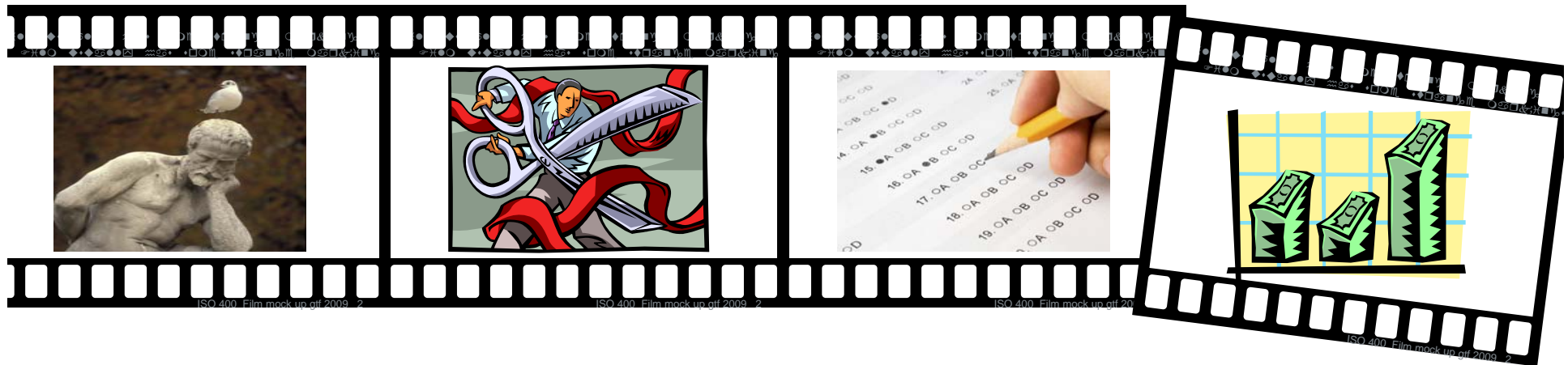
# How does this happen?

“We manage risk intuitively”

“Lets avoid bureaucracy”

“Everyone knows how to manage risks”

“As long as the results are good, no one asks...”



- Decisions are not based on clear understanding of risks
- Risk factors around decisions not documented
- No common understanding of levels of acceptable risk
- No sanction for poor decisions

- Governance processes are ‘fluid’
- Accountabilities for risks are not tied down
- Risk function seen as an ‘administrator’ of risk information

- Risk awareness is low
- Competency in management of risks not recognised as a key skill
- People are not rewarded for being good at managing risks

- Reward / Sanction not linked to effective risk taking
- Risk skills are not valued and encouraged

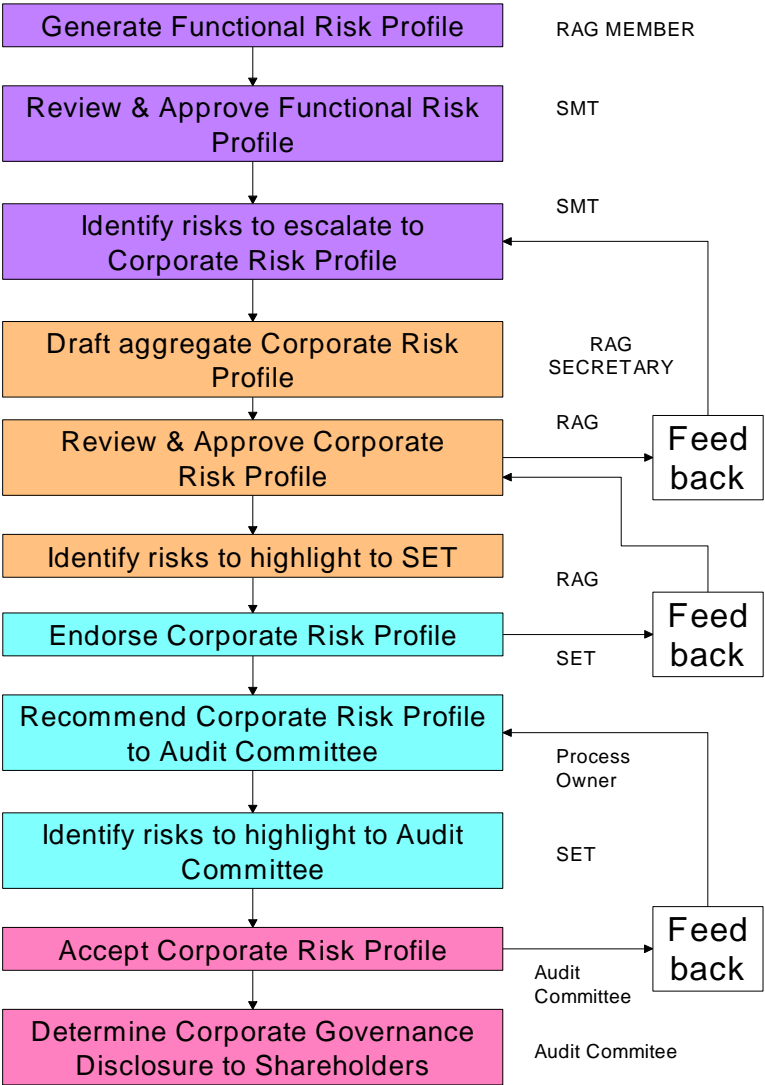
# Evaluated Risk Culture

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## ↳ Four key elements of risk culture

- **Tone at the Top**
  - Risk Leadership
  - Responding to 'Bad News'
- **Governance**
  - Risk Governance
  - Risk Transparency
- **Competency**
  - Risk Resources
  - Risk Competence
- **Decision Making**
  - Risk Decisions
  - Rewarding appropriate risk taking

# Process Mapping - example



- ➔ Mapping risk management processes helps define the key steps
- ➔ It defines timelines
- ➔ It also captures who is involved at each step and who is ultimately accountable for delivering each element

# RACI charting - example

Step	Activity	Roles and Responsibilities										
		Functional RAG member	Functional Risk advisor	Functional SMT	SET member	SET group	RAG group	Risk reporting coordinator	Process sponsor/ owner	Audit committee coordinator	Audit committee	Board
1	Generate functional risk profile	R	C	C	A			CI				
2	Review and approve functional risk profile	C	C	R	A			I				
3	Identify risks to escalate to corporate profile	C	CI	R	A			CI				
4	Draft aggregate corporate risk profile	C	C				I	R	A			
5	Review and approve corporate risk profile	C	I	I	C		R		A			
6	Identify risks to highlight to SET	I				I	R	R	A			
7	Endorse corporate risk profile				C	AR	I	I	R			
8	Recommend corporate risk profile to audit committee					A	I	R	R	I	I	
9	Identify risks to highlight to audit committee					A	I	R	R	I	I	
10	Accept corporate risk profile					I	I		I	I	AR	
11	Determine corporate governance disclosure to shareholders					I			R	R	CI	A

→ Nomenclature:

→ **Responsible** – this person is charged with carrying out the task.

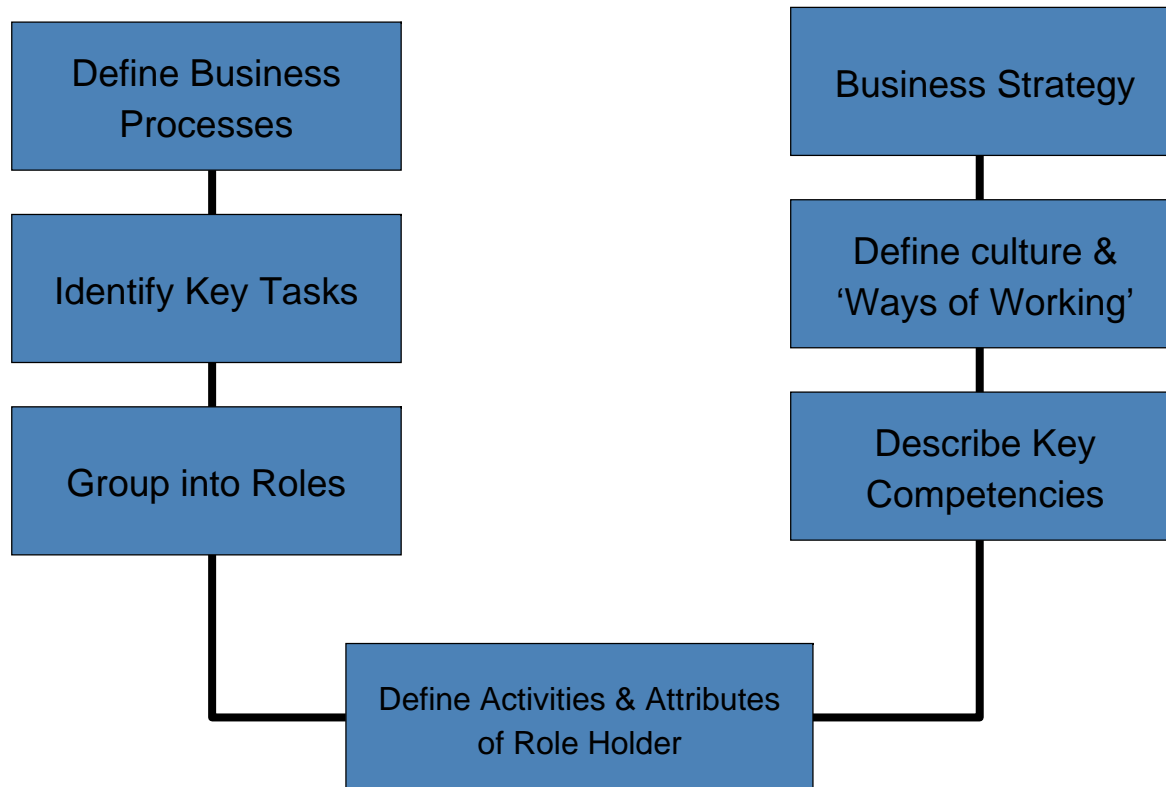
→ **Accountable** – this person is ultimately held to account if the activity is not completed. The ‘buck’ stops with them. There can only be one person or body accountable for each task.

→ **Consulted** – this person must be consulted before the activity is completed.

→ **Informed** – this person needs to know about the activity, but this may occur after the event.

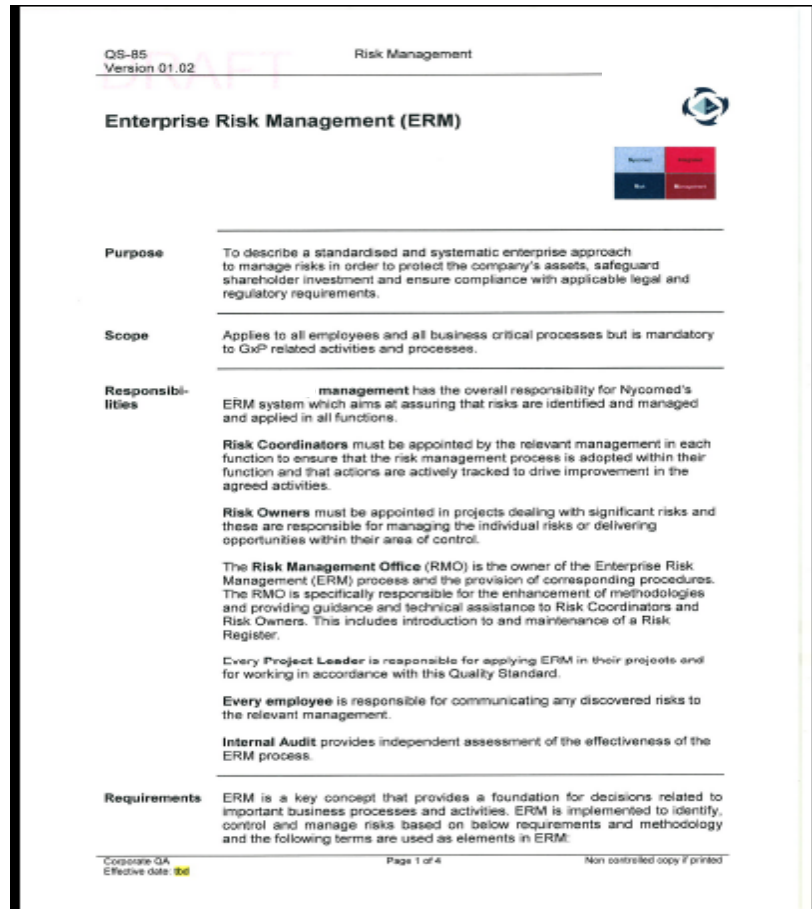
# Organisational Design Process

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- ➔ Given an understanding of key risk management business processes and tasks required
- ➔ Given an understanding of business strategy and organisational culture
- ➔ It is possible to define key roles within the risk management process

# Risk Policy – defines accountabilities

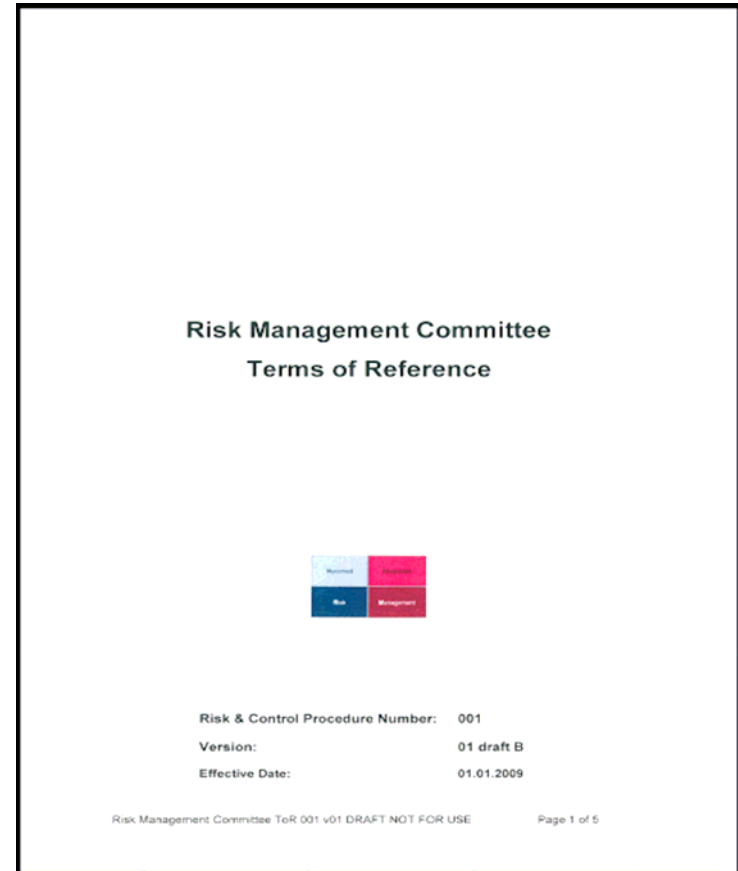


- High level statement of Objectives – ‘Why’ and ‘What’
- Useful in **communicating** to stakeholders
- Defines key elements of **framework**
  - Purpose & benefits
  - Responsibilities
  - Process

# Risk Committee – defining accountabilities

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- ↳ **Purpose** of Committee defined in Terms of Reference
- ↳ Defines **role of Chairman** for CFO as ERM sponsor
- ↳ Defines **role of Secretary** for Risk Manager as process owner
- ↳ Defines **responsibilities** of the members
- ↳ Confirm reporting cycle



# Clear buy in to accountabilities

## Champions

Job Description....

- Risk Committee representative for function
  - local champions of benefits of ERM
    - Influential member of the team
- Enables implementation in practical way
- Strong channels of communication (internal and external)
- Works with Process Owner to 'make it happen'
- Informed and convinced



## A Successful 'Active Sponsor'...

Job Description....

- Board level representative
  - Natural salesperson
    - Influential member of the team
- Decision maker
- Strong channels of communication (internal and external)
- Positioned to secure stakeholder involvement
- Informed and convinced



# Clear management commitment

## Key Success Factors - Draft

- Common understanding of shared philosophy, simple principles
- Create and implement flexible framework
- Encourage open discussion and management of business risks
- Functional understanding of risk at decisions
- Tailored approaches in areas of business risk

## Leadership Behaviours to foster ERM

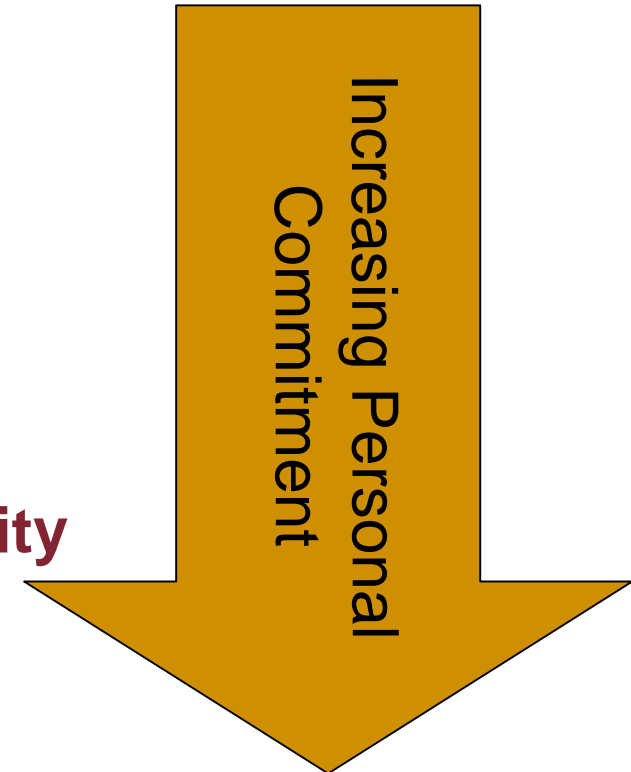
- Risk is part of everyone's responsibilities
- Managing risk is part of 'business as usual'
- Clearly communicating boundaries of acceptable risk
- Encouraging, empowering and supporting team members in managing risks
- Encouraging challenge and learning from risk management judgements
- Encouraging discussion and analysis of unexpected results
- Securing training and support



# What are the key levers of culture?

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- Risk awareness
- Common language
- Risk Appetite
- Training & Development
- Communication and Engagement
- **Risk Ownership and Accountability**
- **Performance & Recognition**



# Example - Making the link

Aligning ERM with performance management and reward processes

<b>Name</b>																						
<b>Category of Objective / Core Process</b>	<b>Objective(s)</b>	<b>Target Date</b>																				
<b>Uncertainties</b>	<b>Treatment and/or control measures</b>	<b>Key Performance Indicators</b>																				
	<table border="1"> <tr> <th>Already in place</th> <th>Proposed for improvement</th> </tr> <tr><td></td><td></td></tr> <tr><td></td><td></td></tr> <tr><td></td><td></td></tr> <tr><td></td><td></td></tr> <tr><td></td><td></td></tr> <tr><td></td><td></td></tr> <tr><td></td><td></td></tr> <tr><td></td><td></td></tr> <tr><td></td><td></td></tr> </table>	Already in place	Proposed for improvement																			
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# Board perspective – culture & accountability

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→ "We kept our approach to risk management at AZ Electronic Materials simple and focused on what might keep us from meeting our business objectives. Working with Aon we recognised that it is important to adopt sufficient discipline to identify and act on key business risks. We were careful however to ensure that the process was kept simple. Our culture emphasised the accountability of business leaders for managing key risks. It was important to embed this thinking within day-to-day management, working with the existing culture and values of the business."

Ken Greatbatch, Chief Financial Officer



# Conclusions

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- Risk culture and company values determine attitudes to accountability
- Attitudes drive behaviours on accountability
- Clear accountability drives ownership
- Ownership drives action
- Accountability for risks and risk management is therefore a factor of (and a symptom of) corporate culture
- Getting this 'right' for your organisation is a key building block of ERM implementation

## Performance Management in an ERM Framework

Alex Hindson and Sonia Cazenave

Large organisations tend to overlook the role of performance management processes as a means to drive the implementation and embed enterprise risk management (ERM).

It is often said that the performance management process within an organisation needs to encourage and reinforce any desired business change if it is to be a success. ERM is fundamentally an organisational change programme. Like any other change, it needs careful project management. Hoping for the best will probably not do.

### Adopting a successful strategy

Successful implementation of ERM requires careful management and engagement of stakeholders. Key people need to buy in to the objectives of the process. Gaining commitment and influencing behaviour have some pre-requisites, according to the US training and change consultancy group Being First:

- The organisation shares a common vision of the future.
- Leadership presents a unified front to employees in support of this vision.
- Appropriate time is granted for managing and implementing change.
- Surfacing issues or concerns that may block success are identified and managed.
- Timelines and commitments are honoured or publicly altered to ensure leadership credibility.
- People directly involved in the change have some way to contribute to the process.
- The leaders are role models of the mindset and behaviours required.
- The performance management and reward system directly reinforces support for the change process and desired result.

On this last point, how are organisations approaching integrating considerations of ERM into their performance and reward management processes? Reflecting on recent client engagements, we draw conclusions how this might be done.

### Potential approaches

How could you go about achieving this laudable aim in practice? What are the options and possible pitfalls?

#### 1 Risk-aware objective setting

When setting or agreeing personal objectives, line managers and staff should discuss the nature of the risks facing implementation of the agreed objectives. The process should recognise the uncertainties associated with these goals.

Ensuring that the management of risk is clearly and visibly linked to the strategic planning process represents best practice. ERM works best as a strategic process, supporting business decision making. The performance management process for senior managers transforms these strategic plans into personal objectives linked to recognition, such as salary increments and bonus schemes.

Ideally, staff would propose and agree an appropriate approach to maximising the chances of delivering the objectives. Line managers would agree to provide resources required by their staff to assist them in managing the related risks.

This approach encourages the setting of specific, measurable, achievable, realistic and timed (SMART) objectives. The challenge is not to lose the message and goals within a bureaucratic process.

#### 2 Risk-linked objectives

Where managers have been defined as risk owners and have accountability for managing or controlling a specific corporate risk exposure, their objectives could reflect this responsibility. They would, therefore, agree what mitigation strategies might be appropriate and define the resources they would require to meet these goals in practice.

This approach should ensure that managers take these accountabilities seriously and act upon them. It might, however, be more successful to incorporate their responsibility as a risk owner into their job description as a permanent requirement of their role and limit their performance objectives to details of short term actions specifically required to mitigate the risk exposures.

#### 3 Specific risk management-related objectives assigned

Managers within the organisation who have a role in the risk management process should have targets reflecting these commitments. Therefore, it would be appropriate that those responsible for part of the corporate risk management and reporting process have relevant objectives within their performance management process.

This approach would ensure that managers with accountabilities in the risk management process take them seriously. However, because these roles are recurring, rather than specifically tied to an annual planning cycle, it might be more appropriate to capture them within the description of the manager's role. This has the benefit of ensuring that sufficient time and resources are allocated to these tasks, as well as recognising the need for the role holder to have these skills.

#### 4 Incorporate a risk competence requirement

Most performance management processes incorporate an evaluation of staff competencies in terms of how they approach the delivery of their objectives. There are various ways of defining these abilities, but they could, for example, include analytical

# Recent Publication

## Performance Management in an ERM framework

Alex Hindson

alex.hindson@aon.co.uk

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