Developing a robust financial risk management framework

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With every day business challenges, coupled with significant regulatory, social and technological variations, organisations are subject to myriad risks. As a result, it's more important than ever to identify risks and develop a work plan to address and mitigate them.

You can't be in any sort of business without taking risk, for without risk there can be no reward, no profit and no achievement. But there is a difference between blundering blindly or complacently into an uncertain future and setting off confidently, knowing that you have the best information, the best skills and the best plans to cope with whatever the world throws at you.

The past decade has seen some spectacular business failures and disasters, from Lehman

Brothers through to Volkswagen. At the other end of the scale, half of the start-up businesses in the UK fail within the first two years. Corporate governance requirements are becoming more prescriptive in requiring risk management arrangements to be clearly in place. Even for smaller businesses, evidence of effective risk management is increasingly demanded by suppliers, investors, insurers and other stakeholders. IRM's own Risk Predictions for 2016 indicate that volatility and uncertainty will continue to increase.

“The impact of current macro trends and risks, such as cybersecurity, a new geopolitical landscape and an endemic low global growth environment will continue to put pressure on, and potentially change, entire business sectors,” said IRM Chairman Jose Morago.

“Leaders who think critically about the future, anticipate disruption to their sectors, while building resilience and agility in their models, will be in a better position to tackle a challenging risk environment in 2016 and thrive.”

So how can businesses manage their risks better? The first requirement is to take the management of risk seriously throughout the enterprise, from the boardroom downwards. Enterprise risk management (ERM) should be a systematic, organised process with clear responsibilities and integrated into other business functions like HR and audit. There are tools and techniques available to help (for example the ISO 31000 Risk Management Principles and Guidelines or the IRM's own Risk Management Standard) and businesses must choose and use those most applicable and, most importantly, in proportion to the scale of their operations. Those responsible for leading the management of risk within the business must have the right skills, qualifications and experience. You wouldn't put your financial management under the charge of someone not qualified for the job so it is strange that some organisations think that risk management is something that anyone can make up as they go along. Yes, it does need common sense, and a lot of it, but it also needs expertise and knowledge of best practice if the result is to be effective and credible.

We all know that the world is changing fast and that we need to keep abreast with new risks, as well as old ones that can still cause trouble. Alongside serious issues like fraud and cyber security businesses must also pay increasing attention to non-physical risks associated with reputation, protection of intellectual assets, human factors and behaviour, strategy, market and competition risks and regulatory risks. These risks are frequently interconnected, cannot be easily transferred via insurance and so require more sophisticated forms of assessment and control. Some raise challenging questions about ethical decision-making where short term ‘performance culture’ may clash with longer term business integrity. Often the signals given out by emerging risk are weak (who picked up, until it was totally obvious and too late to do anything, that what appeared to be a little local difficulty in the US mortgage market would have such broad repercussions for the global economy?). Those responsible for business risk today must network widely, read widely and draw on broad sources of information, and must also have the personal communications and influencing skills to transfer this knowledge into the language of business to make a real difference to company fortunes.

Businesses must actively seek risk - it's what they do. But they must approach the management of that risk with competence, and therefore confidence.

Top tips for managing business risk

- Don’t make it up as you go along - skills, knowledge, training and experience are important
- Think beyond insurable risk to some of the more intangible problems that can bring businesses down
- Think beyond the boundaries of your own company and look at your ‘extended enterprise’ – risks can arise from the activities of suppliers, partners and neighbours
- Build a risk-aware organisation - don’t just bolt on risk management as a once a year exercise

And, five key questions you should be asking yourself:

1. Which key components, processes, functions or people could, if they fail, stop you operating?

2. What scenarios could trigger a systemic reaction that could cause widespread financial damage? Have you plans in place to counter this?
3. Has the board/MD devoted sufficient resources to creating and maintaining an adequate risk management and assurance framework that functions across the business?
4. Do you give sufficient consideration to the financial risks associated with the business? Have these been mapped?
5. Do you understand your reliance on outsourced IT and cloud based services and the risks that these may bring to the organisation, both financial and practical?

Regional outlook
“As SMEs continue to gain market share across the Middle East, for example up to 40 per cent of Dubai’s GDP derives from these enterprises, it is important that these organisations recognise the contribution that sound, if simple, risk management practices can contribute to the long term resilience of their business. If you take HR consultancy and training organsiations as a good example of companies well represented in the SME space, the temptation could be to consider long term reduction in oil price as a ‘macro-economic, external risk’ however if the companies can put some simple mitigations in place, such as ensuring a pipeline of prospective clients who are not reliant on this sector, then this would be time well spent. Of course before you manage risk, you need to understand which are key to the business strategy. Regardless of

size, we would recommend companies at the smaller end of the SME sector understand their top ten risks and that the CEO/MD is actively involved in managing these, or monitoring the delegated management of these, as part of his or hers day to day duties," explains Kenneth McKeown, IRM Director based in the UAE.

IRM has worked closely with leading industry experts on producing guidance on various aspects of managing risk that can be found here: www.theirm.org/knowledge-and-resources/thought-leadership