

BUILDING A DASHBOARD FOR COMPANIES



Companies have become very global in outlook and many operate in different countries and in different operating environments. Against such a backdrop, understanding the multitude of risks and how they are being managed become an important exercise for companies.

Risks beget returns. However, a single risk event can lead to the downfall of an entire company. The number of examples of companies falling prey to risks that they were unprepared for has led to the increasing popularity of Enterprise Risk Management (ERM) programmes.

On the other hand, individuals who have built sprawling conglomerates would have taken mammoth risks in their initial stages that no one else would. Successful entrepreneurs brag about how they threw in everything they had before success came their way. It is not about managing risks but spotting risks that they can take to give them the highest return. Had they been trying to assess the risks and quantify likelihood of success against downsides, they probably would not have made the millions in their bank accounts.

Therein lies the conflict faced by many public companies that were previously owner managed. The owners believe that risk taking is the essence of the company while disapproving

independent directors and shareholders prefer more detailed review and understanding of different outcomes and downside risk. One needs speed while the other needs details. This creates frustration all around.

A business dashboard

One way to bridge the divide is to implement a structured ERM programme where views from key units in the organisations are obtained, consolidated and analysed. This process would assist in tightening and identifying the key risks for an organisation and determining the most effective means of spending cash resources. It is a bit like building an effective dashboard of a car. You want to be alerted when certain events occur that could leave you stranded. For example, if you are running low on fuel, you want to be informed in advance. You want to know what speed you are travelling so that you don't breach the speed limits. Yet, there is only so much that you can monitor - you wouldn't want a dashboard to be flashing things that are not important - like what volume is the stereo tuned to and if the windscreen is dirty.

Developing an ERM system is a bit like building a good dashboard for the company. You want to know what speed the company is operating at. If there are any speed limits, you want to make sure that your company does not breach these. Any time a major

event can cause the company to be left stranded, you want to make sure a monitoring process is in place to sound an alert.

Many ERM frameworks have been developed to have better assurance that major risks in the company will be addressed and reported should they manifest. The framework also usually addresses countermeasures to the risks and a continuous monitoring process. The COSO ERM framework is a popular one that many companies are adopting while ISO (International Organisation for Standardisation) is also in the process of finalising ISO 31000 which provides guidelines on implementation of risk management programmes.

Implementing an ERM programme

The following are usually the stages involved in implementation of an ERM Programme:

Stage 1: Risk Identification Risk interviews and questionnaires are usually undertaken in this initial stage. The main objective of this stage is to identify all major risks that might affect the company. Hence, understanding key business drivers and personnel is vital in ensuring completeness of risks identified.

Stage 2: Risk Analysis and Measurement

To add meaning to risks, they should be measured with consistent benchmarks. Risks can be defined with two

dimensions, likelihood and impact. A tailored grading scale that is relevant to the company should be established to prioritise and rank the identified risks.

Stage 3: Risk countermeasures

After determining the risks that that company faces, existing countermeasures that mitigate the likelihood or impact of the risks should be assessed for effectiveness. Action plans to design risk responses should be taken if existing countermeasures are not deemed to be effective in addressing the risks.

Stage 4: Risk Monitoring To fully leverage the benefits of ERM programmes, a process should be developed to ensure that risks and their corresponding countermeasures are monitored and reported upon periodically. Controls self assessment has become a popular method for companies to assess

operating effectiveness of the risk countermeasures.

Companies who have matured ERM programmes will usually have developed ERM processes within sub business processes which require more detailed risk analysis. For example, many ERM reporting focus on specific areas such as project management, mergers and acquisitions etc. This helps to ensure a proper and a comprehensive evaluation of more complex risks undertaken.

ERM programmes are usually supported with a strong reporting structure to senior personnel that helm the organisation, a structured process to report and identify risks on an ongoing basis and utilisation of appropriate tools to support the ERM programme.

Successfully managing risks can be highly beneficial to the company in terms of:

- Better prevention of a single risk from crippling the entire organisation
- Transparency in risk taking
- Leverage on opportunities offered by risk events
- Early warning system
- Appointed individuals to monitor and to be accountable for selected risk events
- A consistent risk appetite across the organisation

Development of such a business dashboard is vital to monitoring business activities and building a corporate culture that takes risks based on information rather than on what other companies are doing or based on gut feel. This can go a long way towards better protection of the company and in many cases, better position for the company to react quickly and correctly to occurrences of risk events.