

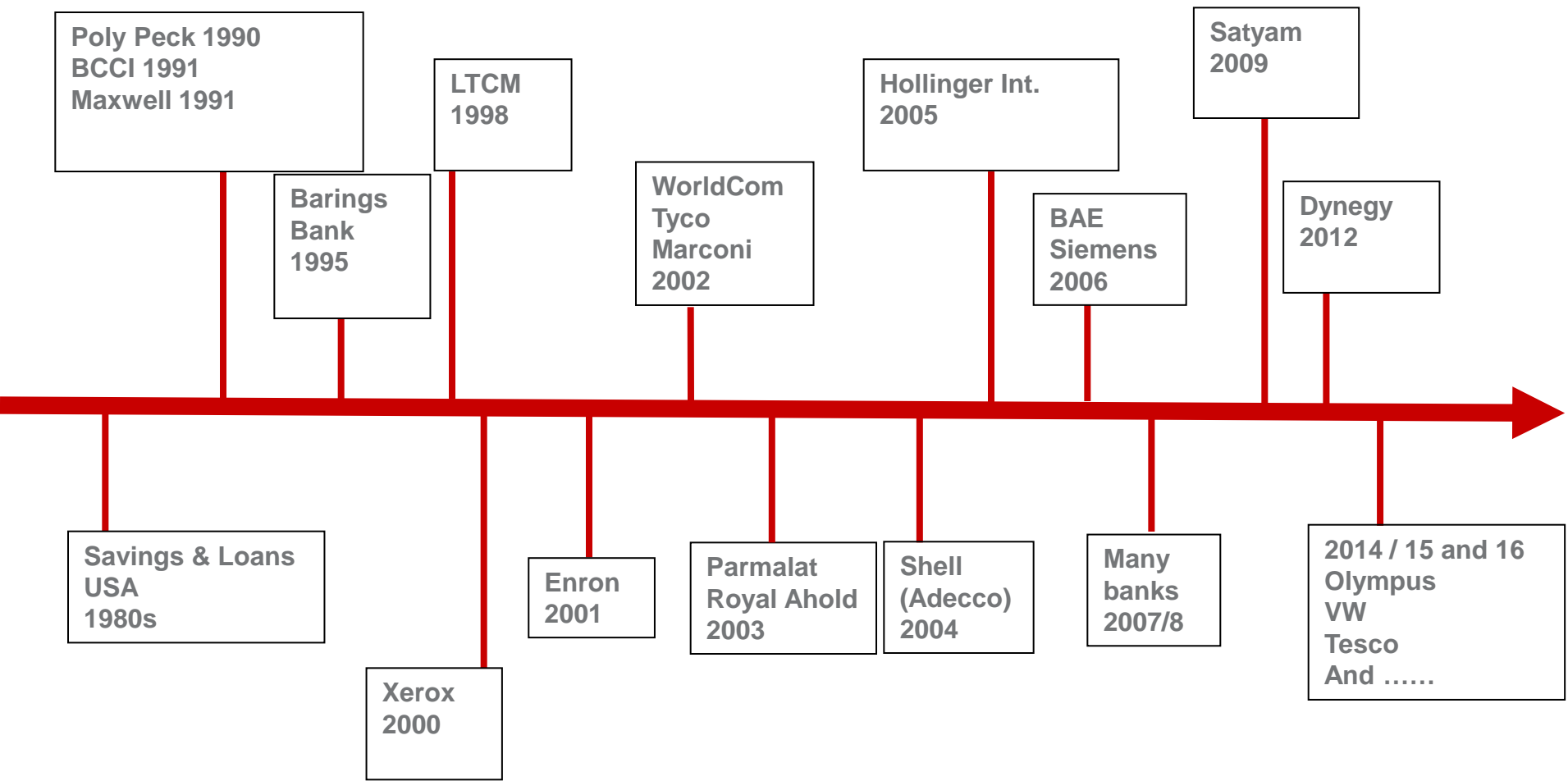
Think Ahead

ACCA

**Market
Optimisation by
Understanding
Enterprise Risk
Management (ERM)
Value Proposition**

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Agenda

- Offer a brief overview and history of ERM;
- Provide an overview on ERM value proposition – what are the benefits?
- Describe how adopting a good ERM program can help organisations to achieve competitive advantage and overall market optimisation.
- And lastly, ACCA's position / experience

A history of ERM

“The underlying premise of enterprise risk management is that every entity exists to provide value for its stakeholders” and that “Enterprise risk management enables management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build value.”

- **Internal Environment**
- **Objective Setting**
- **Event Identification**
- **Risk Assessment**
- **Risk Response**
- **Control Activities**
- **Information and Communication**
- **Monitoring**

A Risk Challenge Culture

“Even some organisations that claim to have a robust risk governance structure have one in name only; the directors are not as actively engaged in risk oversight as they need to be. They oftentimes lack adequate training in risk issues and may receive unduly optimistic risk reporting. In the wake of a risk debacle, a typical question is, “Where was the board while this was happening?””

What is a challenge culture?

- Board and executive set the tone for the rest of the organisation
- Encouraging and rewarding those who raise concerns about behaviour and priorities - rather than those who take unnecessary risks or who act only in the short term interests of the organisation.
- Scepticism must be actively promoted – a questioning mindset welcomed, expected and rewarded.



9 areas of culture – Part 1

- Board members and the C-suite must approach their risk oversight responsibilities with a “questioning mind” and make “critical assessments” of the effectiveness of an organisation’s risk management process.
- The board, if it is to avoid being a risk itself, should reflect diversity in skills and experiences, and be knowledgeable about Enterprise Risk Management (ERM).
- The board and committees, the C-suite and risk-owning operating management are responsible for leading and sustaining a viable risk challenge culture. The board and CEO sets the tone from the top regarding the openness expected in risk discussions.
- The board must receive key risk information on a timely basis.
- It is essential to recognize that cognitive biases in decision making – where people think differently about issues – exist. They should be recorded with mechanisms put in place to minimize their impact.

9 areas of culture – Part 2

- People need to be aware of the signs that a risk culture is lacking and in need of remediation. These include: weak risk leadership, poor risk transparency, and rewarding inappropriate risk-taking.
- It is critical that organisations begin the process of establishing formal risk appetites and risk tolerances, communicating them to all levels, and updating when necessary
- As recent history has shown, faulty, unbalanced incentive plans can lead to misguided, excessive or even ruinous risk-taking. Incentives should be carefully constructed to induce behaviors appropriately aligned with strategy and risk appetite/tolerance.
- Setting strategy without performing a thorough risk analysis has often led to massive value destruction. It is the board's responsibility to ensure that this linkage is strong and evaluated often.

What are the benefits of ERM?

- Market Optimisation = growth, return on investment and equity, brand equity and an organisation's reputation
- Identifying risk – and opportunities - makes good business sense.
- Risk management is an essential part of a sound strategic planning process, and it needs to be owned right across the organisation
- ERM is integrated into the DNA of the business



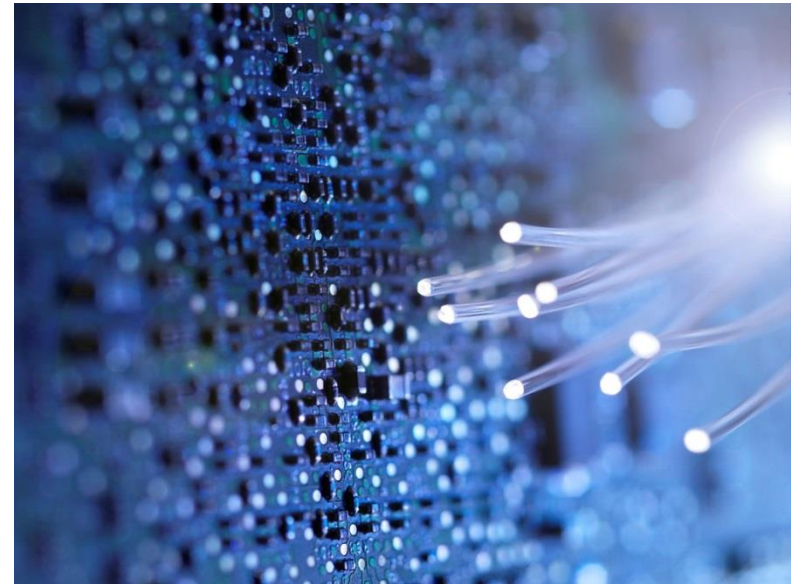
ACCA's Experience: The ethical and professional accountant

- Governance, Risk and Ethics P1 level paper
- F1 Accountant in Business; F4 – Corporate and Business Law' F5 – Audit and Assurance and P7 Advanced Audit and Assurance
- Ethics and professionalism module



Connecting to better risk management

There is a positive link between better risk management practice and improved corporate performance – boards must better understand, manage, and report on risk to drive value and create growth, integrating consideration of risk and return within all key decisions.



Conclusion

