ORGANISATION CULTURE
&
ENTERPRISE RISK MANAGEMENT

Presented by:
ANN GATONYE
Cert ERM

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Outline of the session

- Organisation Culture; Definition and characteristics
- ERM Framework & Implementation Process
- Drivers of ERM
- Integrating ERM into the organisational culture
- Importance of developing a risk aware culture
- Barriers to developing a risk aware culture
- Role of Internal Audit in ERM

Culture

- The arts and other manifestations of human intellectual achievement regarding collectively

Arts :humanities : intellectual achievements

- The ideas, customs and social behaviour of a **particular** people or society

Civilization: society: lifestyle: customs

- The values and behaviours that “contribute to the unique social and psychological environment of a society”

unique: values: behaviour: social

Outline

- ✧ Harmonious community over personal interest

Within the EAC

- ✧ Hub of educationist
- ✧ People of peculiar habits
- ✧ Fast execution

Closer home…..

- ✧ Don’t throw stones anyhow because chances of hitting and injuring a professor is very high
- ✧ Hottest bed of millionaires and billionaires – deeply entrenched entrepreneurship

Culture……

- Harmonious community over personal interest – "wa" community from Japan

Within the EAC

- Hub of educationist - Uganda
- People of peculiar habits - Kenya
- Fast execution - Rwanda

Closer home…..

- Don't throw stones anyhow because chances of hitting and injuring a professor is very high - Kisumu city
- Hottest bed of millionaires and billionaires "deeply entrenched entrepreneurship" – a little village in Muranga county "Rwathia"

What's Organisation Culture?

Shared Values and Behaviours that guide the employees towards acceptable and rewarding behaviour

It includes;

- Organisation expectations
- Experiences
- Philosophy

...and Values that hold it together

Factors considered in O.C.

✧ Self-Image

✧ Inner-workings

✧ Interactions with the outside world

✧ Future expectations

Based on

- Attitudes
- Beliefs
- Customs

…..and written and un-written rules that have been developed over time and are considered valid

In life situations

- ✧ Harmonious community over personal interest – "wa" community from Japan

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Manifestation on Culture

- What I think of the place/organisation – based one where I come from “location” to “Location”
- Traits that I developed as I grew-up – “past” versus “present”
- The past influencing the present – how we behave, talk, social status, performance in the society
- It creates “superiority” versus “inferiority”, “them” versus “us”
- Creates an area for comparisons, comparatives, and a “competitive edge”

How does it Exists in O.C.

Two distinctive levels

1) Visible

- Artifacts – Rituals/ceremonies – induction, corporate functions, offsite meetings,
- symbols and slogans – recognition and awards, “get it right first time”, “Customer First”, “More for Less”.
- Stories based on past events, symbols and visible employee’s behaviours

How does it Exists in O.C.

2) Hidden

- Values – these can only be tested based on collective opinion about the experiences
- Ethics – Code of moral principal. These can only be tested by commitment and career development
- Empowerment – social culture and structure of organisation. Control/Decision and responsibility
- Assumptions – end up becoming silent law an that governs the behaviour of the employees

What influences O.C.

- Purpose
- Environment
- Technology
- Size

Types of O.C.

There are four most common and identifiable organisational cultures that are based on Structural control and environmental focus

- ✧ Entrepreneurial
- ✧ Market
- ✧ Clan
- ✧ Bureaucratic

1) Bureaucratic

- Stable environment and has hierarchal control structure

- Lots of processes, rules and policies guide the day to day operations

- Leadership focus is on efficiency, predictability and low cost

- Concentration is on internal factors

2) Clan

- Its flexible with internal focus
- Encourages Employees participation and often prides itself of taking exceptional care on its employees
- Creates strong sense of identity in its employees and empowers them by having a horizon structure
- Leadership values loyalty and traditions

3) Market

- Organisation has clear financial and sales goals with make focus on customer satisfaction
- The external environment is not rapidly changing thus stable but demands efficiency
- The internal culture is competitive and demanding
- Success is measured by market share penetration

4) Entrepreneurial

- The organisation purpose is differentiation
- Strive in innovation and competition
- Control structure is horizontal and most of the time its small in size
- Depends a lot of research and development
- Culture encourages risk taking, values new ideas and is quick to detect and react to external changes

EXERCISE 1

Identify one company

Indicate the type of organisation culture it has

Justify the type, giving examples

In summary

- The way the organisation conducts its business, treats employees, customers and the other stakeholders
- Extend to which freedom is allowed in decision making, in developing new ideas and personal expression
- The power and information flow through hierarchy
- How committed are the employees towards collective objectives

Why do we need O.C.

- Common identity – Collective identity that goes beyond individual or personal aspirations

- Guidance - good working relations and promotes ethical communication

- Justification of actions – actions are dependant on precedence's and are understood by management

Reflection!

- ✧ Would the culture of the society affect an organisation growth?
- ✧ Would the culture of an organisation affect another competing organisation?
- ✧ Would the culture of the organisation determine it's growth and profitability?

ERM Framework

&

Implementation Process

Brief history
Of
Enterprise Risk
Management

Outline

- ✧ Risk Management objectives
- ✧ Enterprise Risk Management Framework
    - Risk management process
    - Risk governance
    - Risk treatment options
    - Roles and responsibilities
    - Risk scoring
- ✧ Success factors, challenges and limitation

Broad Risk Management Objectives

Seize business opportunities
Risk = Opportunity

Ensure Earnings Stability
Risk = Uncertainty

Protect against unforeseen losses
Risk = Threat

Enhanced Economic Value Added & Stakeholder Protection

Enhanced Shareholder Value

Business/Strategic Risk arises as much from the likelihood that something good will not happen as it does from the threat that something bad will happen

Risk management is not risk avoidance – it is maximizing the risk/return relationship – it is about taking risks knowingly not unwittingly

Risk can be defined as the combination of the probability of an event and its consequences (ISO/IEC Guide 73).

Remember…

You cannot eliminate all risk

Risk-taking is an inherent element of a business and, indeed, profits are in part the reward for successful risk taking. On the other hand, excessive, poorly managed risk can lead to losses and thus endanger the safety of a business.

What is Risk Management?

- Risk management is the identification, assessment, and prioritization of risks *(the effect of uncertainty on objectives, whether positive or negative)* followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities.

- Risk Management is the process whereby organisations methodically address the risks attaching to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities.

What is ERM Framework?

"………. a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."

Source: ***COSO Enterprise Risk Management – Integrated Framework.***

concepts

1.A process, ongoing and flowing through an organisation
2.Effected by people at every level of an organization
3.Applied in strategy setting
4.Applied across the enterprise, at every level and unit, and includes taking an entity level portfolio view of risk
5.Designed to identify potential events that, if they occur, will affect the entity and to manage risk within its risk appetite
6.Able to provide reasonable assurance to an entity's management and board of directors
7.Geared to achievement of objectives in one or more separate but overlapping categories

Objectives of ERM

- Manage an organization's exposure to negative impacts, so that the organization's objectives can be successfully achieved.
- Assist management and staff in the performance of their duties by setting out clear responsibilities and accountabilities in relation to the managing of risk.
- Ensure a consistent approach across the organization's businesses by providing minimum standards for risk management (supported by guidelines, shared framework, language and techniques) to ensure that risk policies, principles and procedures are both adequate and effective.

ERM Encompasses

Aligning risk appetite and strategy – Management considers the entity's risk appetite in evaluating strategic alternatives, setting related objectives, and developing mechanisms to manage related risks.

Enhancing risk response decisions – Enterprise risk management provides the rigor to identify and select among alternative risk responses – risk avoidance, reduction, sharing, and acceptance.

Reducing operational surprises and losses – Entities gain enhanced capability to identify potential events and establish responses, reducing surprises and associated costs or losses.

Identifying and managing multiple and cross-enterprise risks – Every enterprise faces a myriad of risks affecting different parts of the organization, and enterprise risk management facilitates effective response to the interrelated impacts, and integrated responses to multiple risks.

Seizing opportunities – By considering a full range of potential events, management is positioned to identify and proactively realize opportunities.

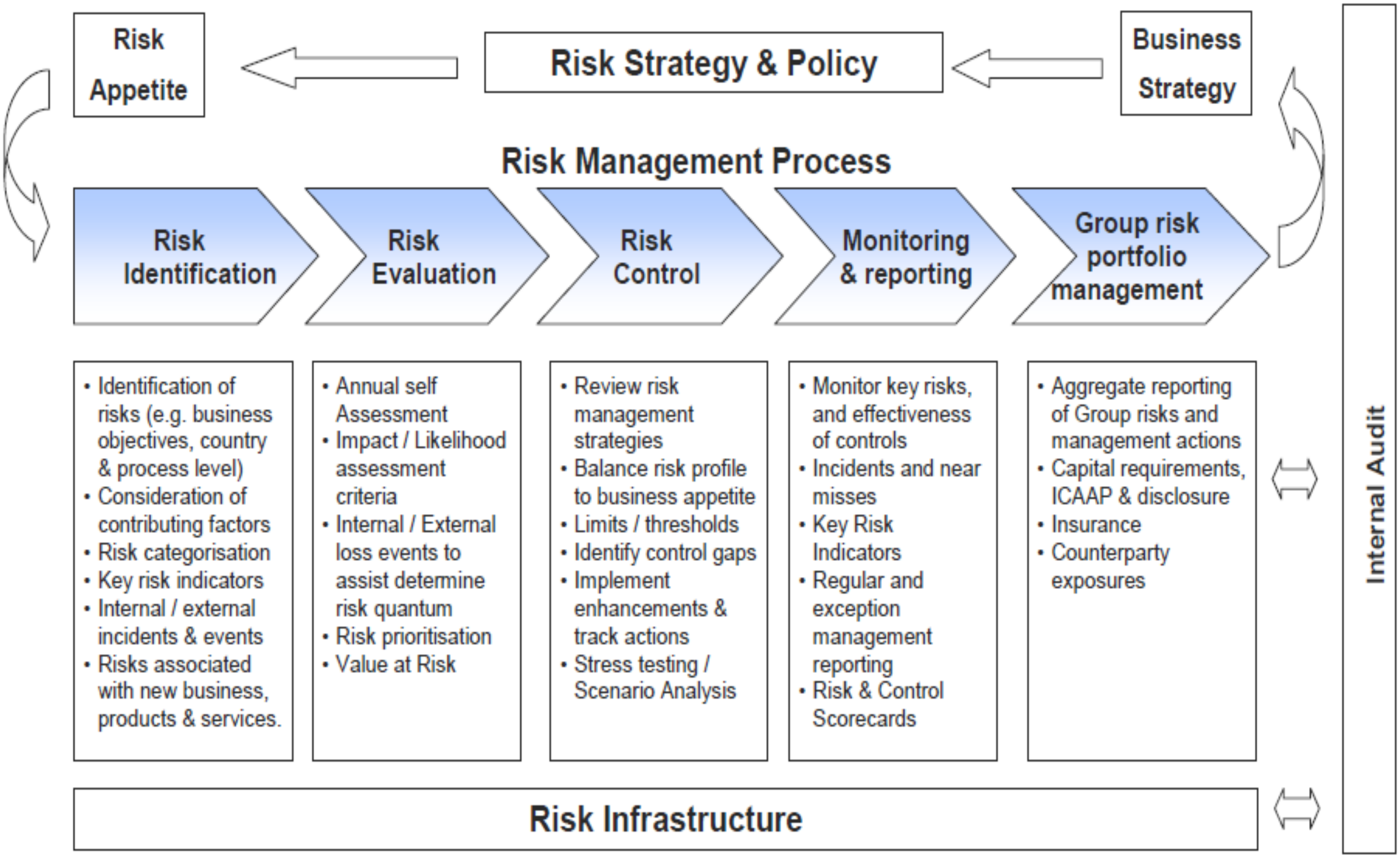
Improving deployment of capital – Obtaining robust risk information allows management to effectively assess overall capital needs and enhance capital allocation.

The Importance of ERM

- Underlying principles:
  - Every entity, whether for-profit or not, exists to realize value for its stakeholders.
  - Value is created, preserved, or eroded by management decisions in all activities, from setting strategy to operating the enterprise day-to-day.

- ERM supports value creation by enabling management to:
  - Deal effectively with potential future events that create uncertainty.
  - Respond in a manner that reduces the likelihood of downside outcomes and increases the upside.
  - The management of risk is an integral component of effective Corporate Governance
  - Promoting proactive management rather than reactive with the early identification and prioritisation of key risks

ERM PROCESS


Risk Appetite
Risk Strategy & Policy
Business Strategy
Risk Management Process
Risk Identification
Risk Evaluation
Risk Control
Monitoring & reporting
Group risk portfolio management
• Identification of risks (e.g. business objectives, country & process level)
• Consideration of contributing factors
• Risk categorisation
• Key risk indicators
• Internal / external incidents & events
• Risks associated with new business, products & services.
• Annual self Assessment
• Impact / Likelihood assessment criteria
• Internal / External loss events to assist determine risk quantum
• Risk prioritisation
• Value at Risk
• Review risk management strategies
• Balance risk profile to business appetite
• Limits / thresholds
• Identify control gaps
• Implement enhancements & track actions
• Stress testing / Scenario Analysis
• Monitor key risks, and effectiveness of controls
• Incidents and near misses
• Key Risk Indicators
• Regular and exception management reporting
• Risk & Control Scorecards
• Aggregate reporting of Group risks and management actions
• Capital requirements, ICAAP & disclosure
• Insurance
• Counterparty exposures
Risk Infrastructure
Internal Audit

Risk management process

- external events
- new products
- Acquisitions
- changes to business processes

Identification

- Likelihood
- Impact
- Inherent
- Residual

Assessment

Mitigation and control

- Avoid
- Transfer
- mitigate by controls
- accept residual risk

Monitoring and reporting

- KRI / KCS
- loss data
- Issue Mgmt
- Risk Appetite

Risk Universe

1. Industry*
2. Economy
3. Political change

4. Competitor
5. Consumer preference

6. Market share
7. Reputation
8. Brand equity*

9. Strategic focus
10. Investor confidence

11. Customer satisfaction
12. Product failure*
13. Supply chain
14. Sourcing
15. Supplier concentration
16. Outsourcing
17. Production Cycle
18. Catastrophic loss
19. Process execution

20. Policies and procedures
21. Environmental
22. Contract
23. Legal and regulatory*

24. Human Resources
25. Health and safety*
26. Authority
27. Integrity
28. Leadership/Empowerment
29. Communications
30. Culture
31. Performance incentive
32. Knowledge capital

33. Cash flow/liquidity
34. Capital availability
35. Interest rate
36. Foreign exchange

37. Credit capacity
38. Credit concentration
39. Credit default

40. Accounting
41. Budgeting
42. Taxation

43. Pricing
44. Performance measurement
45. Portfolio

46. Systems infrastructure
47. Systems access
48. Systems availability
49. Data integrity
50. Date relevance

Risk Identification

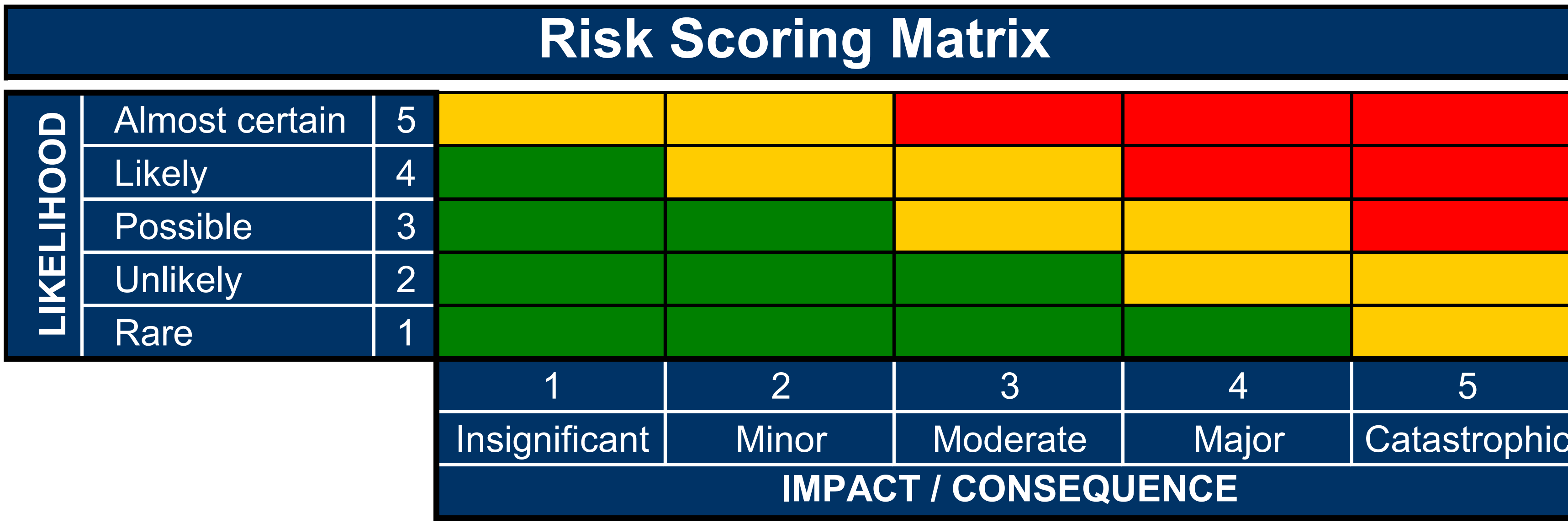
ABC Company	Industry	Brand Equity	Product Failure	Legal & Regulatory	Health & Safety
Finance (Process)					
M&A (Sub Process)	X				
General Counsel (Process)					
Environmental (Sub Process)				X	X
Administration (Process)					
HR (Sub Process)					X
Risk Management (Process)					
Insurance (Sub Process)					X
Strategic Planning (Sub Process)	X				
Operations (Process)					
Production (Sub Process)			X		
Quality Assurance (Sub Process)		X	X		
Customer Service (Process)					
Distribution/ Warranty & Repairs (Sub Process)		X	X		
New Product Development (Process)					
Research (Sub Process)		X	X		

EXERCISE 2

From Exercise 1

Identify 5 key risks that should form part of the ERM framework

Risk Assessment/ Evaluation



Low Risk

Manage by routine procedures

Medium Risk

Management responsibility must be specified – Senior Management involved

High Risk

Senior Management attention required
Immediate action required
Board gets involved

Risk Control

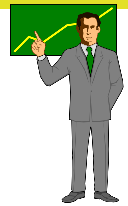
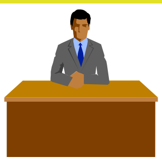
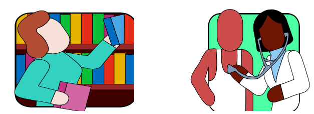
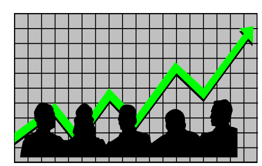
OPTIONS

Accept	***Accept the level of risk***	*Active Risk Management*
Reduce	***Taking action to reduce the likelihood or impact related to the risk***	*1. Reduce chance of losses arising from business activities* *2. Absorb only optimal quantity of particular Risk*
Transfer	***Transferring or sharing a portion of the risk, to reduce it***	*1. Buy/sell financial claims to diversify or concentrate portfolio risks* *2. Sell assets with risks which the firm has no clear competitive advantage in managing*
Avoid	***Exiting the activities giving rise to risk***	*Shed superfluous risks by devoting resources to risk avoidance*

Risk Monitoring & Reporting

- Key Risk registers
- Control Risks and issue registers
- Establishing Risk thresholds and tolerance limits
- Reports on overall risk exposure across all risk types
- Stress and scenario test these exposures
- Compare the results to the available capital

Roles within the group

	GROUP	GROUP BUSINESS	COUNTRY	
	Risk Type or Policy Owners	**Group Business & Functional Owners**	**Legal**	**Business**
POLICY & STANDARDS IMPLEMENTATION	 • Set & maintain Group standards & policies • Design and implement RMF	 • Customise Group & develop business specific policies and procedures	 • Provide advice on local regulatory requirements • Perform assurance review	 • Customize to local policies & standards • Drive implementation of policies and controls
	Compliance & Risk Type Owners	**Business & Functional Owners**	**Country Risk Coordinator**	**Line Management/URM/RP**
ASSURANCE	 • Perform assurance review	 • Oversee compliance with policies & standards	 • Prepare Country Risk Profile • Engage risk management at country level	 • Manage day-to-day risks • Ensure compliance with policies & regulations • Identify & report risks, losses & exceptions
	Board Risk Committee	**Business Risk Committee**	**Country Risk Group**	**Business Risk Group**
GOVERNANCE	 • Review Group Risk Profile & monitor resolution of significant risks	 • Review Risk Profile across the business globally & monitor resolution of significant risks.	 • Resolve & monitor strategic Risk issues & trends at country level • Review country Risk Profile	 • Resolve, monitor risk issues & trends at business level • Review business Risk Profile

Assurance within the Group – Internal Auditor

Traditionally;

- Assessing weaknesses in the system of internal control
- The internal control themselves

Now;

- Review of the integrity and completeness of risk management process
- Understand and review the effectiveness of risk management function
- That Operation management framework has integrity and is being implemented along with the appropriate controls
- Offer an independent assessment of the underlying design of Enterprise risk management process
  - including the adequacy and reliability of ERM systems and processes
  - Its compliance with external regulatory guidelines

- Overall assurance of the adequacy of ERM

Relation between Risk management and internal audit

Risk managers use Internal Audit scores as proxies for the level of ERM in the business
Uses the scores to monitor and report on the progress of business units in resolving internal audit issues

Internal Audit uses the results of ERM self assessments to provide the focus for internal audits and to review the effectiveness of the ERM practices

Internal Audit act as facilitators and mentors to management and exercise influence over adoption

Governance team in ERM

stakeholder	Board Of Directors	Senior Management	Chief Risk Officer
Roles	• approve risk appetite and risk tolerance levels; • require senior management to adopt a policy and procedures for determining the organisation's appropriate level of capital in light of the risks to which it is exposed and ensuring that risk management strategies are in place; • review and approve the risk management framework and changes thereto, including mechanisms for delegating responsibilities and plans developed in the event of deficiencies; • approve proposed policies establishing the rules for accepting, monitoring, managing and reporting on the material risks to which the organisation is exposed; • require senior management to report on the material risks to which the organisation is exposed. The report should also discuss the procedures in place to manage these risks and the overall effectiveness of such procedures; • ensure that the organisation ERM has a degree of independence, a status and sufficient visibility and is reviewed periodically.	• implement a risk management policy and risk management procedures that are appropriate in light of the organisation risk profile and business plan, and ensure that they are implemented efficiently and effectively; • designate appropriate individuals to be in charge of monitoring and controlling all material risks in line with the strategies adopted by the organisation; • align each risk against the organisation's objectives regarding the creation and preservation of value, including with respect to the business processes or specific segments in which such risks may materialize; • assess the potential effects of the risks identified on the organisation's strategies and compliance as well as on the integrity of financial reporting; • identify the risks that may materialize with a view to establishing an order of priority based on the organisation's characteristics and operating framework; • establish procedures for communicating with and drawing on higher reporting levels in response to the materialization of risks, the effectiveness of controls and changes likely to affect the organisation's risk profile; • implement an effective compensation system that does not encourage risky practices such as the pursuit of higher returns through speculative position-taking.	• creating a risk culture by taking into account and incorporating risks in the strategic decisions; • developing and implementing a risk management framework using, in particular, the expertise of risk managers at various levels of the organisation; • advising members of the management team and the board of directors and communicating information to interested parties, in particular with regard to objectives of optimal risk-based capital allocation; • mitigating risks that are harmful to the organisation.

ERM in relation to Corporate Governance

- Governance and risk management is the responsibility of the board and senior management of a firm

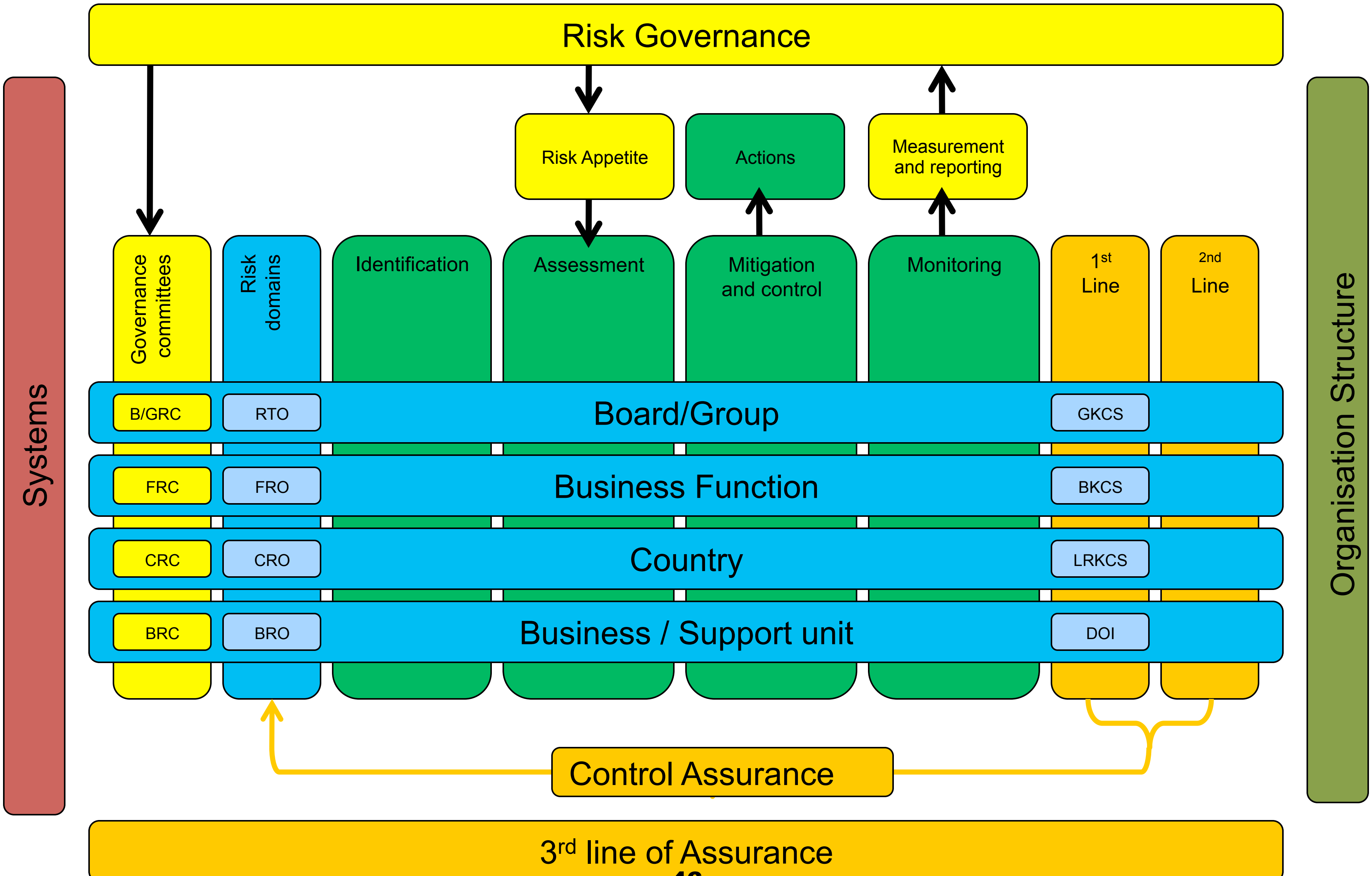
- This senior oversight responsibility is common to any well-designed risk management process.

- The difference with an ERM approach is that because it integrates the management of all risks, those with corporate governance responsibilities are able to see a single view of the firm's risk profile

The 3 lines of Defense

Responsibilities		Activities
• Risk Identification, Mitigation & Management • Compliance with Standards & Policies	LINE MANAGEMENT Control & Self-assess Embedded and periodic controls in DOI / process flows	• Day-to-day Controls Self-Assessments on transactions / unit risks
• Establish Framework, Standards & Policies • Provide assurance on policy implementation & quality of controls	RISK TYPE OWNERS & COMPLIANCE Sets & monitors Sstandards Policy and control assurance	• Ensure Compliance • Review Quality of Controls • Rule based and interpretive assurance
• Independent Assurance	INTERNAL/EXTERNAL AUDIT Independent Assurance Independent of business and functions	• Audit Adequacy of Risk Management

The Integrated ERM Framework



Where does an Organisation start

- A Champion –to enlist executive and Board support
- A Vision
- A Strategic Plan to achieve the vision
- Governance and Accountability –document within a corporate level risk policy
- Core Foundation Elements developed
- Phased approach -small steps –moving toward vision –an evolution.
- Integrated System solution –easier to capture data, integrate processes, generate Decision Support, shift culture and drive business value

Importance of developing a risk aware culture

Challenges of Implementing ERM

Challenges to implementing and establishing an ERM programme

These fall into four categories:

1) Measurement
2) Aggregation
3) Timescale
4) Cultural

1) Measurement

- The confidence level and time-frame both need to be consistent across all measured risks

- The chosen measurement approaches are also needed to enable direct comparisons between asset classes

2) Aggregation

It is important to distinguish between the (i) the firm's risks and (ii) its clients' risks to avoid inflating the risk profile through double counting

- ✧ Firm risks – impact (i) just the firm itself, or (ii) its clients in such a way that they need to be compensated
  - ➢ The firm is impacted when its own resources are reduced in value through credit, market, investment, liquidity or operational risk
  - ➢ The firm is also impacted when it needs to compensate clients for errors
- ✧ Client risks – do not require the firm to pay compensation when they occur

3) Timescale

- There are timescale challenges in the actual production of the ERM reports. They can be slow to produce because of:
- The complexity involved in collecting and transforming the inputs from disparate sources
- The need to add narrative to the data in order that the senior team can quickly understand the key points

4) Cultural

- Identifying the right executive sponsor for the ERM is extremely important
- Because the different risk departments use similar, but not identical, vocabulary, there is often scope for misunderstanding when these departments are required to work together
- Firms have experienced challenges in combining their credit and market risk teams, and their operational risk teams into a single unit

Success factors for Effective ERM

1) Commitment from the top - active commitment, oversight and support from Board and top management
2) Communication
3) Culture –
   - culture of risk awareness
   - One risk language
   - single risk rating methodology for all risks and issues
4) Governance and organization Structure.
   - Sound risk governance
   - Embedding risk managers within individual business lines leads to greater understanding and awareness of risk, and of its link to Performance.
   - Clear connections to strategic and business objectives
   - Risk management tied to incentives (Balanced Scorecard)
5) Information Technology (IT) - Integrated system to support a central repository of risk information-
6) Training and developing people to ensure depth of risk knowledge and skills
7) Adequate Policies, Procedures and Limits
8) Quality and utility of data (MIS) – risk data gathered should be accurate and useful
9) Adequate Internal Controls

Value Proposition in ERM

- Develops a strategic, firm-wide approach to risk management and mitigation using all the available tools: derivatives, insurance, internal controls and strategic action
- Focuses management attention on the truly important risks – risks with potential to significantly impact earnings or even endanger firm survival
- Integrates risk management into critical decision-making processes, such as strategic planning, to ensure a link between risk-adjusted performance measurement tools (e.g. Economic Capital RAROC) and strategic decision-making (i.e. Budget planning, Capex, M&A)
- Identifies the risks inherent in current strategy and business model before the competition to provide sustainable competitive advantage

RECAP!!

Risk management has a proactive role to play in shaping new ideas for products and services as well as in protecting a company and its various units.

Nurturing a creative and positive tension between these two helps an organisation in reaping rewards from investing in risk management and generating more value from it in future

ERM status

Emerging good risk practice

- Governance and risk culture
  - Strong Risk culture – “Tone from the top”
  - Board understanding
  - Linkage between strategic planning and risk management
- Risk appetite
  - Tolerances / thresholds set by Board
- CRO & Risk Management function
  - Independent
  - Risk function overseeing all risks
- Clear risk strategy
- An ERM perspective
- Risk models & integration of risks
  - No reliance on any specific risk methodology
  - Reduce reliance on rating agencies
- Transparency on key risks
  - Counterparty
  - Liquidity
  - Risk exposure from complex financial products
  - Reporting insights and actionable recommendations

Introduction

ASANTE SANA !!!