

Board Enterprise Wide-Risk Management

How well are the various risks in your organisations known? Is there concern that many of the risks facing your organisation may not be fully understood so that they can be appropriately managed?

Is the board paying sufficient attention to ensuring that the priority risks facing your organisation are effectively mitigated by management taking concise actions and assuming responsibility?

Risk management has become an increasingly important management task that needs to be effectively managed. Within the current business environment there are many more risks and uncertainties facing an organisation than in the past. This has resulted in risk having to be managed at all levels in an organisation and is of such importance, that the Boards have been charged with ultimate responsibility to ensure that risk is effectively managed.

Risk resides throughout the organisation and it is important to understand where the areas of highest risk are. Given that most risks are generally known, a comprehensive risk assessment helps decide how to mitigate the most important risks that might be encountered.

Every organisation usually has a clear idea of the levels of performance it is striving to achieve. This may be formally managed through a strategic plan, which then informs an annual plan, supported by budgets which are set to manage the organisation to meet the targets set for all three levels. Often achievement of these targets is compromised by both external and internal factors impacting performance, many of which are often unexpected. These factors are the very risks that need to be mitigated. The risk of non-achievement of any plan, but most importantly, plans formulated at the strategic level are referred to as strategic risk. Strategic risk is the culmination of the various priorities identified across all functions in the organisation. The term enterprise-wide risk management is used to frame how risk should effectively be managed across the organisation.

In embarking upon an assessment of risk in an organisation, a formal and diligent process needs to be followed. The first step is to ascertain where risk has already been assessed, by assessing the organisation across all operating and support functions. In this process all risks are tabulated and registered. To ensure all risks are identified interactions with management are essential, through interviews and / or workshops.

Once all risks are known and management is confident that the list is comprehensive, the risks need to be assessed to determine which risks need to be diligently managed. Two criteria are used to make this determination. Each risk is evaluated for the severity of the event should it occur, secondly the likelihood of event occurring. This process enables the priority that needs to be given to addressing each risk to be determined. This is referred to as the Risk Priority Number [RPN] which enables management and the directors to focus on which risks to address.

Every risk has an inherent component which also needs to be taken into consideration, as the entire risk may not be able to be mitigated comprehensively. The addressable component of each risk is then considered as to how it is to be mitigated and specifically what the actions are that need to be undertaken and by who. This needs to be clearly stated in the Risk Register. The effect or impact of the event, on various functions or processes in the organisation is then determined in a scoring matrix, where after the residual risk is determined.

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 www.stratnovation.co.za

 Office +27(11) 706 8999 OR +27 087 802 6256

 +27(63) 662 6165

 Skype Message or schedule a discussion: stratnovation

 [StratNovation linkedIn.com](https://www.linkedin.com/company/stratnovation)

 info@stratnovation.co.za /

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Effectively managing risk, at different levels in an organisation is important, from the highest level viz strategic risk management through to the risks that reside within the various functions and business units. An effective risk management process enables the most strategic risks to be determined across the enterprise and pulled through to the highest level, no matter where they reside in the organisation.

The management of risk is strongly correlated with compliance risk, which is concerned with managing the risk of compliance to legislation and regulations that are mandatory for the organisation to adhere to. See our separated and related service on Compliance Risk.

The management of risk and compliance is contingent upon effective governance, hence the grouping of the management tasks three together. Managing all three in an integrated manner, under the banner of Governance , Risk and Compliance [GRRI] is both useful and necessary.

An **Enterprise-Wide Risk management intervention** engagement typically includes:

1. establishing the status of risk management in the organisation and the identification of risks that are being managed and specifically how they are being managed;
2. identifying and assessing the risks that are not being managed through the compilation of a risk register through interaction with management and the directors;
3. determining which risks need to be mitigated, by considering each risk on its merits and understanding the inherent component of the risk and the eventual residual risk;
4. agreeing mitigating actions that need to be taken, by management, and specifically who will be responsible and when that will be achieved by;
5. ensuring that the Board role in overseeing the management of risk, including reporting, across the enterprise, ensuring that it is clearly understood;
6. ensuring that the responsibility for managing risk within the senior management teams is clarified and that the policies, procedures and processes comprising the risk management system are in place to manage risk on an ongoing basis;
7. ensuring that the requisite level of training on risk is provided.

StratNovation has a highly skilled and experienced team that conducts Enterprise-Wide Risk Management Assessments for clients to ensure that our client manage risk effectively to enable the levels of performance envisaged to the organisation to be achieved with the highest level of probability.

For an exploratory discussion with one of our discipline experts who would be willing to guide your organisation, contact us through our TEAM Contacts on our website or through one of the following:

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