

Risk intelligence and beyond

Standard & Poor's announcement that it will assess the quality of an organisation's enterprise risk management in setting credit ratings is one of a growing number of catalysts changing how the world sees risk. Martin Metcalf of Strategic Thought Group assesses the impact.

Amid storms in the economy, tightening credit lines, waves of uncertainty about the environment and scarce resources, implementing a mature ERM strategy is more than ever a top priority. To Strategic Thought Group customers – some leaders in the field – ERM is also changing the meaning of business leadership, explains CEO Martin Metcalf.

For many of them, uncertainty and risk are seen as opportunities to drive performance, innovate and develop competitive advantage. As we know from S&P's and from our experience working at the leading edge of these developments, the upside matters.

Beyond enterprise-wide

Yet, in an age of increasingly interdependent, networked business models, ERM must also go beyond internal boundaries, for the simple reason that profound risks lurk beneath the surface.

Seen holistically, ERM brings with it a critical strategic advantage: it delivers to top management and stakeholders the true picture of the entire business. It can be seen as a way of capturing, communicating and analysing risk and reward information, not simply in conventional, inwardly focused hierarchical terms, but in terms of complex supply/demand systems and stakeholder relationships. This includes views of essential links with customers, suppliers, regulators and sources of finance. The most mature forms of ERM go beyond enterprise-wide.

Take, for example, a hot topic like managing globally interconnected supply chains and the associated business continuity risks. Demonstrating to S&P's and to all stakeholders that risks are understood and that both new ideas and protection measures are in place against business interruption is critical. Being seen to be vulnerable to the kind of contagion we have seen in the financial markets may soon contribute to the risk of a downgrade.

Risk intelligence

Follow this line of thinking and it means sharing information, not only internally, but also with important stakeholders. Even in worlds conventionally associated with secrecy such as defence and intelligence, the paradigm is moving from 'knowledge is power' to 'knowledge shared is power'. Only if raw data is collected effectively and shared in new ways can the full force of analytical tools – human as well as informational – be put into practice.

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Risk-reward maturity

More broadly, ERM is a new set of cultural practices, intelligence management and organisational processes, designed to help organisations deliver their business vision, strategy and objectives. It introduces systems and disciplines aimed at identifying, measuring and actively managing threats that may throw sustainable growth, profitability and new investment opportunities off course.

In this sense, ERM is top-down. At the same time, if it is to be implemented successfully, ERM must engage everyone in the business in understanding risk-reward relationships. It is therefore also a bottom-up process and this requires implementation of the right cultural practices, processes and software tools.

Software and cultural practice

S&P's will focus initially on 'culture' and 'strategic risk'. They have deferred ERM evaluation of 'emerging risks' and 'risk



controls' until benchmarks are developed. However, Strategic Thought's experience is that the ERM journey is best undertaken with the destination in mind and so the question of maturity is critical. Setting out to deliver a vision of ERM in its most mature form means laying the groundwork from the outset. Emerging risks and risk controls are, after all, integral to good business management, whether they can be measured and benchmarked – or not.

Software is not only a necessary part of the design vision and strategy, but essential from the outset. Software provides the framework, information-sharing, codification, analysis tools and disciplines that can be used to define, develop, embed, and re-enforce cultural practices.

Of course, not all companies will adjust to disclosing risks in a transparent, timely way. Yet, because software at its best is simple to use, it can lower barriers and fit into established ways of working.

Put another way, software frames and encourages cultural change. It can change how people think and work, beyond the boundaries of the enterprise. At the same time, it can push the limits of what the world thinks of as risk – as well as the definition of business leadership. ■

Further information

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