ORCHESTRATING HARMONY IN YOUR OWN ORGANIZATION

How Enterprise Risk Management (ERM) Can Help

HAVE YOU EVER sat through a symphony concert and asked yourself, “How do they make such beautiful music together?” Just imagine all of those different instruments and musicians, each with their own will to play at their best alone but as an ensemble, so dependent on how each section plays well together.

How do you manage the risk of one player missing their entrance? What if a player in your section does not know the score or come prepared for a performance as well as the player sitting next to him or her? How do you stay on top of all of these unknowns, yet still manage to keep it all together in order to perform at the highest level for a paying patron? Imagine if you were the conductor and you had a mechanism or tool at your disposal to help you navigate the unknowns and to help ensure you balanced your risks to ensure your reward was a brilliant performance. Conductors have been following the principles of Enterprise Risk Management (ERM) for a very long time. Does this seem like a bit of stretch?

While many definitions exist for ERM, in practice, the concept is really an intuitive process that strives to influence and adapt an organization’s culture to encourage proactive and effective awareness of risks and rewards. Said another way, ERM is in essence a way of thinking – a culture in which every individual within the organization is aware of risks and rewards in their everyday decision making.

I intend to draw a useful, yet real-life analogy to help better understand ERM. The analogy is of how an orchestral conductor and a leader of an organization can both achieve a successful balance of managing their risks and rewards by following the best practice principles of ERM. In many ways, an organization is like a symphony orchestra – individuals with key skills and expertise come together to perform under a leader, be it the C-Suite or the conductor. In the case of an organization, these individuals are functional specialists (i.e., finance, legal, human resources, operational, etc.) who work in tandem to achieve excellence in support of the organization’s long term strategic plan set by the executive and senior management. In an orchestra, talented musicians, who are trained in the art of playing an instrument, each play their part to interpret a complex score of music under the direction of a conductor. In both cases, the leaders must be aware of all aspects under their control and to constantly adjust their direction to keep all those working under them performing to the best of their ability. They are both managing risks to ensure rewards are maximized – be it maximizing profitability/stakeholder value or giving a world-class performance of a great piece of music.

Managing risks across an organization’s enterprise is really no different than managing risks from the podium of an orchestra – in each situation, the leaders are applying the principles of ERM, perhaps they just don’t realize it. The process of implementing ERM is fundamentally a process of education, building awareness of risks and rewards, developing buy-in and ultimately encouraging accountability and ownership for the outcomes of one’s actions. Implementing ERM should be viewed as a commitment to continuous improvements focusing on balancing individual performance against the greater good of the organization as a whole - the management of risk and rewards by influencing behavior and culture.

Embedding ERM into the Culture:
Setting the Right Tempo

If an organization is to derive significant value and benefits from an ERM initiative, the organization must first develop an enterprise-wide, culture of risk management. When an awareness of risks exists in the thinking, behavior, processes and practices at all levels of the organization - you have the foundation for a risk management culture. Whether it is an employee or a musician playing within a particular section, risk awareness becomes an integral day-to-day part of the way an individual operates and performs.

The purpose of developing a risk management culture is to ensure:

- Everyone understands risk management in a way that is tangible and appropriate to his or her role. They understand what the organization’s risk priorities are and how their responsibilities relate to the overall goals and objectives of the organization, so risk can be managed optimally. Poor business decisions made over time may lead to lost revenues, just as a series of wrong notes played may result in a bad performance.
- Everyone understands how risks can be surfaced, mitigated and escalated. By working together - effectively removing silos, individuals can begin to see how their individual actions and responses can be amplified throughout the organization. Appropriate risk management knowledge, skills and capability can be developed and maintained, and that knowledge is effectively shared and transferred across the organization. Teamwork within an organization achieves similar goals to individual players playing within a section to perform in unison.

Developing a Risk Management Culture:
Rehearsing for a Best in Class Performance

Developing a risk management culture is a key element of an organization’s overall ERM journey, and in many respects the most challenging and difficult piece to establishing an ERM framework. Implementing a successful ERM initiative takes time and careful consideration. Building awareness, competence, capability and knowledge, and changing behavior and the way things are done, cannot happen immediately. Many organizations report that the process of developing a living and demonstrable risk management culture takes patience and dedication. Successful organizations are not created overnight, just the same as a brilliant orchestral performance does not happen without much rehearsal.

So, the next time you go to an orchestral concert, watch the conductor on the podium very carefully. There is a good chance you will see ERM in action!

Contact: Michael Yip, *National Practice Leader - Enterprise Risk Management, BFL CANADA*
E-Mail: myip@bflcanada.ca

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1177 West Hastings Street, Suite 200, Vancouver, BC, CANADA, V6E 2K3
Direct: 604-669-9600 Fax: 604-683-9316 www.bflcanada.ca