THE RIGHT MOVES

The Evolution of Approach In Risk Management

Onspring

AN ONSPRING WHITE PAPER

INTRODUCTION

Risk and Finding an Approach

We face risk every day, regardless of what we do or how we do it. A natural part of living, it is an even bigger part of the daily existence within the world. While risk itself is a recurring instance for most companies, the problem is not just dealing with different risks, but identifying specifically what the risks are and having a universal definition of what they are.

Knowing what constitutes risk for a company leads in turn to maintaining and dealing with the risk in a proper way—setting up a plan, an approach to handling risk. There are a lot of different methods to take and choose from, but the most important aspect is making sure the plan is suited to a company's needs—everyone differs in how they manage risk: their tolerance and their response procedures.

Once a common alignment plan is in place, selecting the proper tools to track and maintain the risk is just as important as the identification of the risks. There are many different tools that specialize in Risk Management; be advised that they are not equal in their functionality, the service provided by their companies and the user experience they deliver.

As you define your risk approach, it will be important to find the right solution. When the different risk solutions are stacked up against one another, Onspring will come away as one of the best ways to manage risk.

Risk management doesn't have to be a "looking-over-a-cliff" approach.

A HISTORY OF RISK

It's Always Been Around

The concept of risk management—what it is and consists of—is something that is often misunderstood or misinterpreted. One of the biggest challenges has been putting a definitive meaning, a universal definition, on what constitutes risk. Unofficially, the study of risk management started sometime after World War II and it was usually centered around market insurance as a form of protection against specific types of losses.

In the 1950s, the market insurance limitations lead to perceptions of costly and ineffective risk management. It was an incomplete protection, and different types of products began to appear to tackle the growing need for management coverage.

As the use of offshoot tools arose in the management of risk during the 1970s and '80s, companies expanded their overall assessment coverage. At the same time as this increase was happening, the position of chief risk manager was created—risk management became an integral function within most businesses and corporations.

Assessing risk goes all the way back to the original uses of fire.

Fire Burns

Within the relatively short arc of time that risk management officially falls under, guarding and protecting against risk has been around and existed in some form or another since a caveman first stuck his hand into a fire. It was like, "Oh, don't do that." How well management of a known risk is implemented or how intently risk is thought about will be played out over time.

Companies typically fail because they don't have a good practice for managing or potentially responding to the known risks, let alone the unknown. The methods in which companies have been assessing risk have become much more sophisticated over the past 20 or so years, but understanding that the more sophisticated they become, the more they realize how much they don't know is important. If they don't know they're burning, will they know there's a fire?

IN THE BALLPARK

In the beginning, when it came to systematizing risk management, it was a cut and dry process—identify the risk and determine how it would be handled. It might have been as simple as an employee or manager saying, "I think X-Y-Z is a risk." Following a review and approval, the verification would be in place—the risk was identified. Still, the financial impact of a risk and what to do about it was literally determined in the somewhat haphazard fashion of making a guess that was "in the ballpark." Was the risk's financial impact for one million dollars or two million?

In other words, a little (or a lot of) guessing went into the risk management process.

While the simplicity of this is still valid, recent years have seen major advancements in the amount of data that can be tracked and incorporated into risk evaluation models. With so many new and different pieces of information available, companies want to track as many things as possible. And with these new and different data elements comes the need for an approach that can properly assemble the information and present it as each company wants.

Twenty years ago, a lot of risk management information was stored in boxes and filing cabinets.

This creates a problem: If you have 20 data elements about a risk, how can you combine them to be relevant to a particular risk and presented in an executive-type approach? This is usually what executive management wants—a single pane of glass that gives them the full picture without having to look anywhere else—one report that shows the most critical risks.

File Cabinets?

If it isn't written down, is it really a risk management process? It seems astounding, but there are still companies who have not formally documented their mitigation plans. Everything about their risk is stored in antiquated file cabinets and they still have boilerplate templates that don't allow for growth or change. For these companies, it is a world of word processing and spreadsheets.

Lotus 1-2-3, anyone?

How Will You Respond?

As important as risk identification and analysis are, determining the appropriate response is paramount. While each approach will have varying degrees of application within any solution, the more precise the risk definition is, the better. Some basic response types of risk management include:

Risk Avoidance. Eliminating risky activities entirely. This is considered an extreme approach.

Mitigation or Prevention. What steps can you take to reduce the likelihood and impact of losses?

Risk Transfer. This usually entails using insurance or other outside processes.

Risk Retention. Acceptance of the risk. Some risk is inherent in the activities of operation.

TAKE A HARD LOOK

Risk management is not just a "one-time and it's done" procedure. It's an ever-evolving process. For risk to be appropriately managed and be addressed in accordance with your organization's tolerance and philosophy, it has to be touched, analyzed and assessed constantly, or at least within scheduled time frames—monthly, quarterly or annually. Risk management, to be considered successful, must be in an advancing state, a system that allows and demands changes when they need to happen.

Top items to address and have in place when developing a risk management process include:

Risk Identification. Risk management starts with identifying risks. You may have some that sit in a spreadsheet blessed by executives who have deemed them company risks. More often than not, risk management is nothing more than a hodge-podge of information—important stuff that might be unknown to the business, finance or legal sides, and in turn their information is unknown to all other departments. The proper identification of risk internally is essential.

Assessment Process. To systematize the risk assessment process, it has to be an agreed upon process across the board in the organization including how to enter, review and approve a newly identified risk. This includes identifying your tolerance level for each risk and evaluating whether the risk has been managed to an appropriate level.

Risk Response. Your response represents your organization's process and philosophy for addressing the risks impacting its ability to meet its most critical objectives.

Inherent Risk

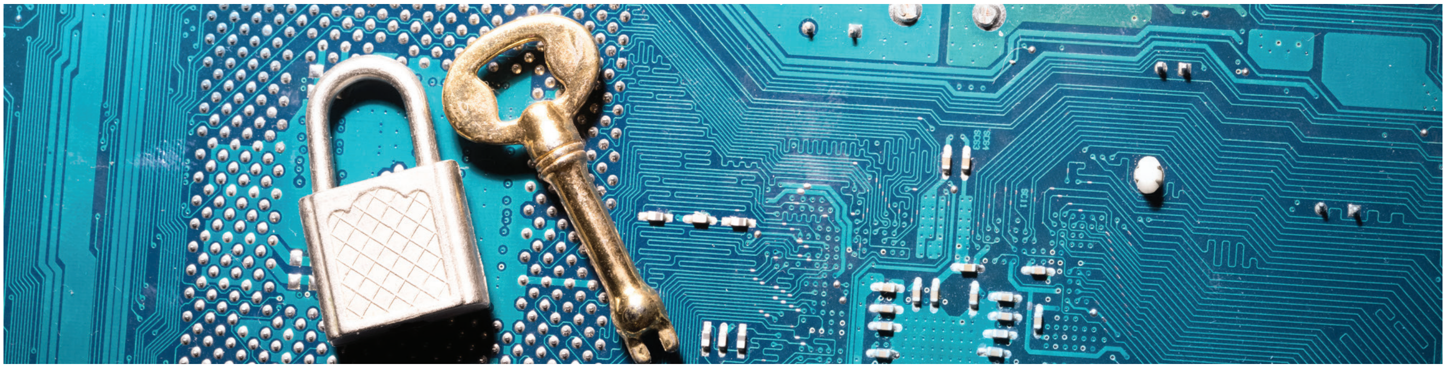
There are a wide variety of risk evaluation methods you can employ. Here's a simplistic example of how you can quickly implement an inherent risk evaluation methodology. Inherent risk is the impact of the risk times the likelihood of the risk. The scales with this calculation are simple, and the five-by-five scale is the one most often used. Using this formula, you can have five different values of impact (insignificant, minor, moderate, major or catastrophic) and five likelihood options (rare, unlikely, reasonably possible, probable or almost certain). In the end, inherent risk can be broken down into these values.

A higher inherent risk needs to be checked and a treatment strategy should be considered or made.

Risk Measurement. To manage risk, you must first be able to measure it. Measuring inherent and residual risk allows you to evaluate whether the level of risk you are facing has been managed to an appropriate level. Whether you use a simplistic formula such as impact times likelihood or something more intricate, these measurements are crucial in determining where you stand and how effectively—or ineffectively—you have responded to the risk.

Trending. Everybody wants to be able to show how their risk has evolved year-over-year. Your inherent risk could go up or down based on a variety of different factors. Well-managed companies want to be able to show their management and executives how that risk is "doing." Has risk been increasing steadily for three years? If it's going up, that could be troublesome, and maybe the company needs to make a strategic decision of how to handle the risk based on its impact to the organization.

Examine your potential risks carefully and make sure they are added properly to your risk register.



If your information is sensitive—and it probably is—make sure you have good security for your risk data.

Trending needs to be based on facts and not on something as abstract as "chicken wire or duct tape" reasoning. Make sure you have real data showing the genuine trends in risk.

Risk Assessment Steps. Risk assessment should follow five simple steps:

1. Identify all known exposures.
2. Decide what aspects of your organization are at risk.
3. Evaluate the risks and determine the appropriate response.
4. Enact and evaluate your response procedures.
5. Periodically re-assess and re-evaluate the status of each risk.

Risk Ownership. One of the biggest problems in risk management is lack of clear responsibility for managing each risk. A risk without an owner is problematic, and if there is no owner for a risk, it likely isn't being managed effectively. For example: say the biggest risk to a company is one that causes the loss of many deals—this risk needs ownership and constant care. This could be a risk no one wants to own, and that in and of itself is a risk to manage.

Security. From a systems standpoint, security is important because some or all of your risk information may be sensitive. The ability to control and deliver information on a need-to-know basis is very relevant. This also relates to data structure, which is needed so that there's a set of key relationships to follow. Understanding what the interdependencies are and having a structure in place is an important part of risk security.

Analysis Capability. Being able to rank your documented risks with an implemented methodology is important. A risk system should have the ability to take inputs and convert them into meaningful information. Whatever that measurement criteria is, even a simple formula like impact times likelihood, the system needs to be able to accommodate it. The ability to set up a cyclical process is also important.

RISK IN THE MARKET PLACE

Needing More Than a "Thumb in the Air" Approach

The awareness and details surrounding risk management—what it is and what it entails—have increased significantly over the past couple of decades. In the world of risk management platforms today, efficiency is the key ingredient, and answering this requirement honestly goes a long way in determining whether or not a new system is needed: How efficient is a company's risk management solution? As redundant as this sounds, a platform is only as effective as its efficiency. If an organization can be more efficient, they're going to be able to do more with less, and in less time. Ultimately, the overall assault and attack on risks increases, which in turn *decreases* risk.

One of the most common driving points for buyers looking for a change in the risk management market today is nothing more than their use of the simple spreadsheet. Why? Usually the use of a spreadsheet has run its course for a company—data can be entered incorrectly or users unknowingly have different versions of the same spreadsheet—the end result being many uncontrollable mistakes or the spreadsheet is just too big.

As the amount of data increases, the approach to deal with the high quantity of information must also evolve. While most companies want a "single pane of glass" approach—one report that shows the overall risk landscape of an organization, including the most critical risks front and center—they also know a spreadsheet methodology isn't going to work any more.

A new approach, one that provides a holistic view of the risk companies face, is the proper landing point, and to make that work, companies have to have a good plan in place.

Risk management needs a good process in place to be effective.

With your plan in place, you can make the moves needed to evolve your risk management program.

MAKE A MOVE

Asking the Right Questions, Finding the Best Practice

Make a strong, credible assessment of what your organization is doing to manage risk. Are you comfortable with the process you have in place? Would you stake your reputation on the approach that you have? Is that approach positioned to evolve as your needs change?

Or, more importantly, do you even have an approach?

Analyze Your Needs

The more questions you can thoroughly answer, the better you can prepare and start a risk management system. Do you have concerns that you're not addressing, potential problems that could be catastrophic to your organization? Problems that could be even mildly irritating? Is everybody in your organization on the same page in terms of what's important and what's not? If you don't have that information, you can implement any risk management tool and it won't matter. Without the proper foundation and methodology—the agreement and buy-in on what it means for your company and department to perform risk management—there isn't a system on the market today that can help you.

You've got to have structure, control and visibility. You need a system where you can correlate large quantities of data, but you've still got to rely on the human element within your organization to make sure that the data being analyzed is meaningful.

If these items have been properly researched, the evolution process of your new risk management approach is ready to go.

THE RIGHT TOOL

Onspring isn't just a platform. Onspring is the vehicle that can get you where you need to go by providing all of the needed core principles of risk management. The structure, reporting, the ease of developing new fields to capture new pieces of data—that's what Onspring is and does. That ease of use is a big advantage of the system. Being very nimble and agile allows Onspring to incorporate all of the new and additional data elements that you require as part of your ever-evolving risk management strategy.

Possibly the biggest advantage of using Onspring for risk management is that you can constantly capture new data, which allows you to constantly measure and evaluate the evolving nature of your risks. Onspring can capture every time scores change that are essential from a risk management perspective, giving a true holistic perspective of your program's evolution.

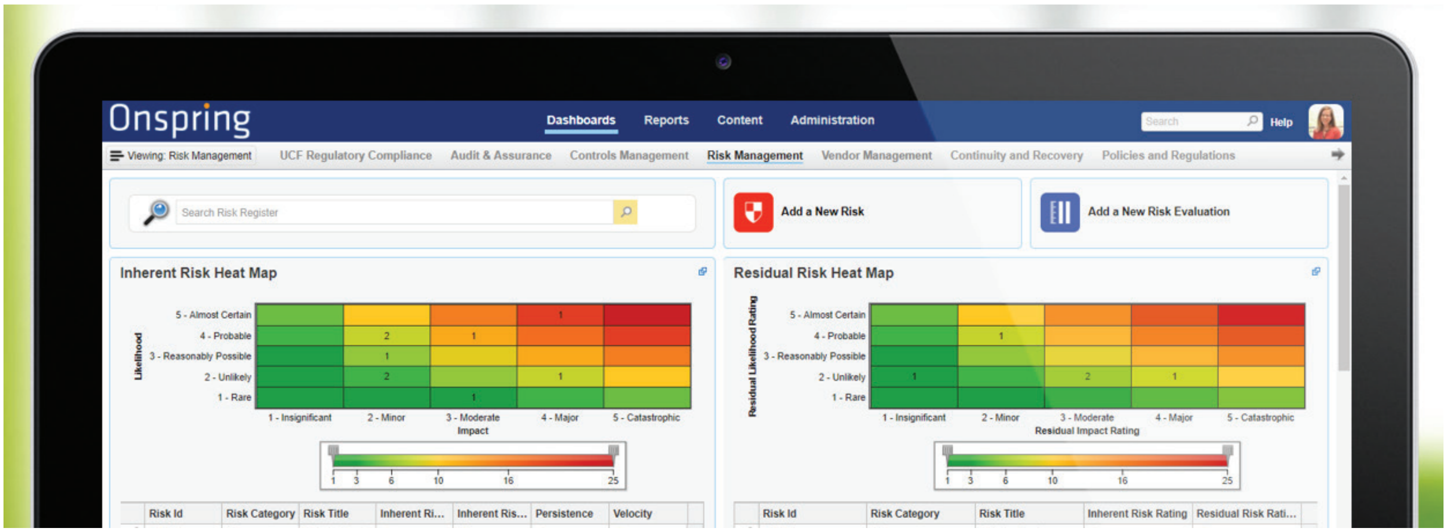
Onspring's primary formulas—such as inherent and residual risk—will continuously update, so as you introduce new metadata elements, your data can keep up with those changes. Reporting is a fundamental feature. If you want to take the old school approach, saying, "I want to have all of my risks print out to a big, nice pretty Word doc that I can share with executives," Onspring can do that as well.

Onspring can adapt to your ever-evolving approach.

The Risk Register

If you're going to have an enterprise risk management function in some capacity, the ability to think big is important, but basic problem solving has to be used. You need to be able to take big risks and break them into smaller, easily manageable parts. And that's where your risk register comes into play. The risks need to be broken down so it's not just one level of 10 different risks. Establishing a meaningful structure to maintain your risk register can enable robust and insightful reporting across a variety of organizational elements.

Within your risk management solution, the need to evaluate risks on a scheduled basis is important. Whether they are looked at quarterly, annually or biannually, it doesn't matter. Onspring can help automate key pieces of that process. From there you can make the proper response to each risk.



Onspring is designed to help with an evolving approach in risk management. As your needs change, increase or move in different directions, Onspring can adapt to meet the new requirements.

Moving Forward and Taking Action

With the rapidly changing world of risk management, it is easy for a platform to fail the current needs of a company. The beauty of a tool like Onspring is that it can evolve as quickly as a company's risk management program does. Do a thorough and thoughtful self-inventory and self-assessment of where your program is regardless of what stage in the process you're at—Onspring will be ready to guide and maneuver through the management of your risks.

Whether you're adding new reports, new formulas or new work flows while capturing more and more risk management data elements, it won't matter. With Onspring, your company will be ready to tackle risk management with an evolving approach.

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No Magic Solution

There is no "snap your fingers" fix for risk management. It comes down to answering the following questions: Is your organization ready for a change? Who's on board? Is there executive support? If those answers are in place, Onspring can help guide a company through the process and adapt to an ever-evolving risk management approach.

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