Review and Requirement of Risk Management Framework for an Organization

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Abstract – In the present working era all companies face risk and without risk there is no reward. But the other side of this is if too much risk can taken than it caucuses business failure. Risk management gives an optimal balance structure to be struck between taking risks and minimizing or reducing risk effect on the organization. The optimize risk management should add value to any organization. If specify, organization working in the investment industry rely heavily on risk management as the foundation that allows them to withstand market crashes. An optimize risk management framework seeks to protect an organization's capital base and earnings without hindering growth. Furthermore, investors are more willing to invest in companies with good risk management practices. This generally results in lower borrowing costs, easier access to capital for the firm and improved long-term performance.

Index Terms – organization, failure, minimizing, investors, framework, management.

INTRODUCTION

The present situation of our business working condition is very competitive. To survival in the present business era taking risk is very important as well as it is demand of the present working profile of the organization. But only taking the risk is not the proper solution for the present working era of the organization, so the risk management is the most important factor to minimizing the risk affect on the business. To the best management of the risk a framework is required that is called as risk management framework (RMF). A risk management framework aims to assist an organization to manage its risks effectively through the application of the risk management process at varying levels and within specific contexts of the organization. Such a framework should ensure that risk information derived from these processes is adequately reported and used as a basis for decision-making at all levels. "A set of components that provide the foundations and organizational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the organization."

The main topics regarding RMF as followed:-
- ❖ The foundations include the policy, objectives, mandate and commitment to manage risk.
- ❖ The organizational arrangements include plans, relationships, accountabilities, resources, processes and activities
- ❖ The risk management framework should be embedded within the organization's overall strategic and operational policies and practices.

The reason behind structured the risk management framework is to ensure that key risks are effectively identified and responded to in a manner that is appropriate to-
- ❖ The nature of the risks faced by the organization
- ❖ The organization's ability to accept and/or manage risk/s
- ❖ The resources available to manage risks within the organization
- ❖ The organization's culture

HARD V/S SOFT ASPECTS OF RISK MANAGEMENT

For a risk management framework to be effective there must be an appropriate balance in focus on both the "hard" aspects of risk management (i.e. processes and structures) and the "soft" aspects (i.e. culture and people).

For example, an organization may have highly sophisticated processes and structures established to manage risks. However, unless these structures and processes are supported by management and staff with the appropriate competencies, attitudes and behaviors, the framework is likely to be ineffective.

Ultimately, risk needs to be managed in order that the organization might maximize its ability to meet its strategic objectives as well as associated operational targets and goals.

The Institute Of Insurance and Risk Management (IIRM) give an important model regarding the risk management framework.
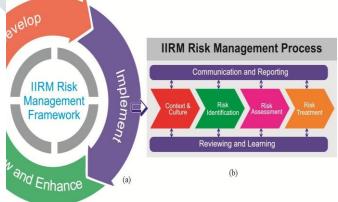

Figure1- IIRM Risk management Framework

In figure 1 shown the block diagram of the IIRM risk management framework phase (a) of the diagram represent

the main three component of the framework like develop, implement and review & enhance the phase (b) of the diagram further explaining the Implement component from communication and reporting to Reviewing and learning in between four more important should be completed, context and culture, risk identification, risk assessment, risk treatment. So that the key element in the IIRM risk management framework are 1- Develop a risk management framework 2- Implement a risk management framework 3- Review and enhance a risk management framework.

Risk management is not a stand-alone discipline. To maximize risk management benefits and opportunities, it needs to be integrated with existing business processes. The following section lists some of the key business processes with which risk alignment is necessary. Internal audit reviews the effectiveness of controls. Alignment between the internal audit function and that of the controls within the risk management process is critical, and the role/s of the risk and compliance/ internal audit manager will seek to align these core processes.

The requirement to follow a risk-based approach to internal audit planning means that risk management outputs, particularly risk assessment outcomes and risk profiles, need to be available as an input to the internal audit function

Similarly, internal audit plays a critical role in the risk management process, specifically in identifying and assessing operational risks, as well as providing assurance that specific risk controls are well designed and are operating effectively.

INCORPORATING RISK MANAGEMENT WITHIN PROJECTS

Projects can be distinguished from normal business processes by the fact that projects have the following:

- ❖ A defined start and end date
- ❖ A clearly documented set of deliverables or outputs that need to be delivered on time, within an agreed budget and in accordance with pre-defined quality criteria for the project to succeed
- ❖ Project success criteria, budgets and accountabilities that are defined and agreed before the project commences.

Many of the principles of project management are now being applied to on-going business processes to improve accountability, monitoring and business performance.

When establishing your organizational risk framework, consider:

- ❖ Including project management risk as a category of risk against which you report
- ❖ Whether all project risks are reported in the organizational risk register or whether the project/ program manager should maintain a separate risk register per project, with only strategic or extreme risks being incorporated into the main risk register, and project risk profiles being reported to the project steering committee
- ❖ Establishing customized Likelihood and Consequence scales for major projects. A cost overrun of 100% of a project budget may be extreme within the context of the project but only moderate or low within the broader organizational context. Similarly, many organizations use project-

specific consequence descriptors, such as the following:

- ❖ Time (timeframes exceeded)
- ❖ Cost (budget overruns)
- ❖ Quality (project does not deliver pre-defined quality/ functionality criteria)
- ❖ Reputation (adverse publicity, laws breached etc.)

Typically more frequent than organizational risk updates and reporting, it is common for risk updates to be provided to the steering committee whenever it meets.

KEY CONSIDERATIONS WHEN DEVELOPING A RISK MANAGEMENT FRAMEWORK

Before developing or revising a risk management framework, the organization should critically review and assess those elements of the risk management process that are already in place. Some of the key questions that need to be answered are:

- ❖ How advanced should the risk management framework be?
- ❖ How effective are current risk management practices?
- ❖ What is the most effective and efficient way of closing the gap?

These questions are explored in further detail in the following sections.

How advanced should the risk management framework be?

An organization's risk management framework should ensure that key risks are effectively identified and responded to in a manner that is appropriate to the organization.

No single risk framework will be appropriate for all organizations. Every organization's board and executives should decide on the appropriate level of risk management sophistication that they aspire to achieve. The desired level of risk maturity may change over time to reflect changes in the organization's complexity, size and risk appetite.

Some external and internal factors would need to be considered to determine the appropriate level of risk management maturity. Some of the most important factors are discussed in the following sections.
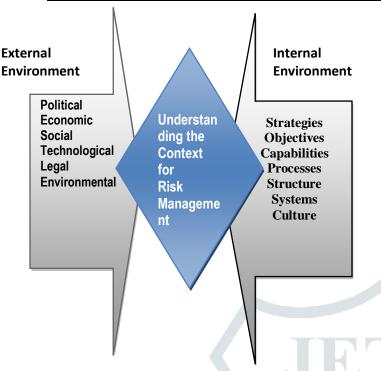
External Environment

Political
Economic
Social
Technological
Legal
Environmental

Understanding the Context for Risk Management

Internal Environment

Strategies
Objectives
Capabilities
Processes
Structure
Systems
Culture

Figure2- Context for Risk Management

How effective are current risk management practices?

When reviewing the effectiveness of current risk management practices, it is necessary to consider both the "hard" and the "soft" aspects of risk management. The two key questions that need to be answered are as follows:
1. Are the current risk management practices and framework "fit-for-purpose" given the organizational context (e.g. objectives, size, complexity, structure, culture, risk appetite etc.)?
2. Are they operating as anticipated (i.e. do people do what they are expected to do)?
There are many names to describe the approach used when looking at all risks across a company, organization or entity. Such an approach can be referred to as enterprise-wide, the whole of the entity, organization-wide, holistic, integrated, etc.
In general, organization-wide risk management is the risk management practices that aim to look at all risk across a company, organization or entity. There are many competing definitions and several frameworks that attempt to define organization-wide risk management, but there is no universally accepted definition or standard. This is probably because organization-wide risk management, in practice, differs depending on the background of the practitioner, the size and nature of the company, and the time at which organization-wide risk management was adopted.
Organization-wide risk management is a holistic approach to managing and prioritizing responses to critical risks across the organization in a manner that will support business strategy and plans. Effective risk assessment essentially consists of risk identification and evaluation across all areas of the organization, followed by a process to ensure that critical risks are treated and managed in accordance with the organization's risk appetite.
Organization-wide risk management seeks to provide a consolidated view of risk across the organization. The scope of organization-wide risk management, therefore, encompasses the use of common risk language, risk

assessment techniques and response strategies across all functional and risk/assurance functions within the organization, such as the following:
- ❖ Occupational health and safety risk
- ❖ Loss control and internal audit
- ❖ Legal and regulatory compliance risk
- ❖ IT and information security
- ❖ Clinical healthcare risk
- ❖ Strategic risk

While physical hazards and financial management represent significant sources of risk for most organizations, other risk areas such as operational and strategic are often neglected. For many organizations, strategic and operational risks may be the greatest threat to achieving strategic objectives and meeting stakeholder expectations.

For example, misaligned products, supplier problems and cost overruns all indicate that organizations need to pay increased attention to identifying and managing their strategic and operational risks. This will assist in achieving objectives and delivering on stakeholder expectations.
Public and private sector organizations are increasingly adopting organization-wide risk management frameworks that provide a holistic approach to identifying, assessing, managing, monitoring and prioritizing responses to all critical risks across the organization in a manner that supports business strategies and plans. The chart below illustrates the key attributes of an organization-wide risk management framework.

Table 1- Difference between TRM and OWRM

Traditional Risk Management	Organization-wide Risk Management
Emphasis on protecting assets	Board/executive support of risk management, Clear accountabilities, Appropriate risk oversight structures
Focus on physical and financial assets	Dedicated risk management coordinator, Explicit consideration of both operational and strategic risks
Risks managed within functional silos	Risk management integrated with operational and general management processes, Clear accountabilities and timeframes for treatment of risks
Inconsistent approaches	Differentiated risk reporting tailored to specific stakeholders, Regular reviews of risk and risk management processes

When determining an organization's desired risk management maturity, the objective should be to maximize the value created through the risk management framework and practices.

The value of risk management can be defined as follows:
$$Value = Benefits - Costs$$

The cost side of the equation is normally relatively easy to quantify and will include:

- ❖ Direct costs associated with increasing the maturity of the organization's risk management framework, as well as the direct costs associated with maintaining the desired level of risk management maturity
- ❖ Indirect costs associated with increased focus on risk management activities. These will effectively be the opportunity costs associated with the additional time spent on risk management activities by management and staff.

The benefits of risk management are often harder to quantify. Some of the benefits typically achieved by organizations with "advanced" risk management practices include:

- ❖ Appropriate balance between realizing opportunities for gains while minimizing losses
- ❖ Opportunities for gains while minimizing losses
- ❖ Better corporate governance, including risk oversight
- ❖ Improved decision-making and facilitating continuous improvement in performance
- ❖ Organizations that manage risk effectively and efficiently are more likely to achieve their objectives and do so at overall lower cost

What is the most effective and efficient way of closing the gap?

Once the organization has taken a critical look at the effectiveness of its current risk management practices and determined an appropriate level of risk management maturity, it needs to determine how to get there.

The likelihood of successfully enhancing the maturity of your risk management framework to the desired level increases dramatically if you plan it well. The best way to do this is often through the development of a formal risk management strategy or plan, and associated risk policy and procedure documents. This will outline how the organization intends to achieve its targeted level of risk management maturity while clarifying the responsibility and processes for achieving risk management goals.

Common areas where organizations struggle to embed risk management include:

- ❖ Ensuring business planning is integrated with risk management
- ❖ Better definitions of risk
- ❖ Improving identification of risks
- ❖ Aligning risk committee and board with what is happening on the ground
- ❖ Linking internal audit and risk management
- ❖ Improving the quality and content of risk registers
- ❖ Embedding operational risk management
- ❖ Identifying controls and their effectiveness

- ❖ Allocating accountability for risk
- ❖ Improving risk reporting and measurement
- ❖ Project risk management

Characteristics of high achievers

- ❖ Commitment from the executive and board
- ❖ Integration of risk and corporate planning processes
- ❖ Well defined governance framework
- ❖ Strong reporting processes
- ❖ Risk support systems, processes and infrastructure for managing risk
- ❖ Clearly defined roles and responsibilities
- ❖ A strong risk culture

Risk management strategy

A risk management strategy typically documents factors such as:

- ❖ Objectives and rationale for managing risk
- ❖ The organization's overall appetite/tolerance for risks
- ❖ The organization's strategic objectives and the strategies deployed to achieve these objectives
- ❖ Key risks associated with these strategies within a one-to-three-year timeframe
- ❖ The organization's high-level approach to managing these risks
- ❖ A plan for progressive enhancement of the organization's risk management practices and competencies, including key risk management initiatives.

The following key questions would need to be answered in the process of formulating a risk Management strategy:

- ❖ What are the organization's key objectives and strategies?
- ❖ What are the risks associated with these?
- ❖ How is the organization assessing, managing and monitoring these risks?
- ❖ Are the risk management processes working effectively?

There is no prescribed format for how a risk management strategy should be documented.

- ❖ Some organizations disclose their risk management strategy in their annual reports
- ❖ Some organizations chose to have a separate document, in addition to a risk management policy and procedure document
- ❖ Some organizations incorporate their risk management strategy within their Business Plan, outlining how risks associated with business plan objectives will be managed.

Risk management policy

The risk management policy should clearly articulate the organization's objectives for and commitment to risk management. The policy typically specifies:

- ❖ Accountabilities and responsibilities for managing risk
- ❖ Commitment to the periodic review and verification of the risk management policy and framework, and its continuous improvement
- ❖ Links between this policy and the organization's objectives
- ❖ The organization's risk appetite
- ❖ The organization's rationale for managing risk
- ❖ Processes and methods to be used for managing risk
- ❖ Resources available to assist those accountable or responsible for managing risk
- ❖ The way in which risk management performance will be measured and reported.

Risk management procedures

The risk management policy is typically supported by a more comprehensive risk management procedure document outlining the organization's detailed approach to managing risk.

Typical contents of the risk management procedure include:

- ❖ Risk management definitions/language – a common risk language will promote a consistent understanding of risk management concepts and provide clarity of communication and action.
- ❖ Risk management roles and responsibilities – an organization's ability to conduct effective risk management is dependent upon having an appropriate risk governance structure and well-defined roles and responsibilities.
- ❖ Relationship and integration with other initiatives – risk management is not a stand-alone discipline. Risk management needs to be integrated with existing business processes to maximize its benefits and opportunities
- ❖ Description of how each step of the risk management process will be applied within the organization
- ❖ Overview of risk reporting framework – content, format, frequency and recipients of risk reports
- ❖ Risk assessment criteria – agreed criteria for assessment of risk likelihood, consequence, and overall risk rating.

Is it acceptable to combine risk management policy, strategy, and procedures into a single risk management plan or manual?

Many organizations have successfully combined these into one document. As long as the right areas are documented, it is reasonable to maintain them as one document.

Risk register

A risk register is a comprehensive record of all risks across an organization, business unit or project depending on the purpose/context of the register.

Risk register content

At a minimum, the risks register records:

- ❖ The risk
- ❖ How and why the risk can occur
- ❖ The existing internal controls that may minimize the likelihood of the risk occurring
- ❖ The likelihood and consequences of the risk to the organization, business unit or project
- ❖ A risk-level rating based on pre-established criteria
- ❖ A framework, including an assessment of whether the risk is acceptable or whether it needs to be treated
- ❖ A clear prioritization of risks (risk profile)
- ❖ A accountability for risk treatment (may be part of the risk treatment plan)
- ❖ The timeframe for risk treatment

RISK MANAGEMENT INFORMATION SYSTEMS

Developing a risk management framework involves identifying the appropriate tools and technology that will help the organization capture, analyze and communicate risk-related information.
The objective is to provide the right information to the right people at the right time to make appropriate decisions with regard to risks.
In general, risk management information systems should possess the capability to:

- ❖ Record details of risks, controls and priorities and show any changes within
- ❖ Record risk treatments and associated resource requirements
- ❖ Record details of incidents and loss events and the lessons learned
- ❖ Track accountability for risks, controls and treatments
- ❖ Track progress and record the completion of risk treatment actions
- ❖ Allow progress against the risk management plan/strategy to be measured
- ❖ Trigger monitoring and assurance activity.

This section provides guidelines for identifying suitable tools and technology to enable your risk management framework.

Identifying your requirements

The first step in the process of managing risk information is to identify your requirements. The key questions to ask are:

- ❖ What risk information or data do you need to capture?
- ❖ How do you capture this risk information?
- ❖ Who are your end-users and what do they need?

The requirements will generally involve capturing risk data, monitoring and recording risk information, developing the capability to analyze and report risk performance, and communicating relevant and timely risk management information to the right stakeholders.

Developing appropriate tools and technology

Developing the appropriate tools and technology according to the requirements will generally depend on the scale and scope of the risk management framework as well as the stakeholders involved. For instance, who are the users of the tools and technology? To which parts of the business will the tools and technology be applied?

Choose the appropriate tools that provide comprehensive, relevant, timely and accurate risk information. This will facilitate better and more informed decision-making.

An organization may find that the costs associated with acquiring and maintaining software exceeds the benefits. In such circumstances, it is probably preferable to invest these resources in improving other areas of risk management – e.g. to fund critical risk treatments/controls, or to train staff.

Capturing risk information

To effectively identify risks, it will be useful to have tools that capture risk information from various sources across the organization, including:

- ❖ Leadership team
- ❖ Business unit managers
- ❖ Selected staff
- ❖ Other stakeholders

Your tools and technology should be able to capture typical risk management information, including:

- ❖ Actual losses, potential losses, and near-miss events
- ❖ Business risk profile, including new and changed exposure to key risks
- ❖ Significant control weaknesses, (which affect significant risks)
- ❖ Progress on action plans to deal with significant risk or control weaknesses

Monitoring and recording risk information

Many organizations use tools and technology with functionality to generate risk reports with information about:

- ❖ Extreme risks
- ❖ The total risk profile
- ❖ Reasons for risk rating movements
- ❖ Risk treatment actions
- ❖ Assurance coverage of key risks
- ❖ Risk management strategy
- ❖ New and emerging risk issues
- ❖ Detailed risk register

Capability to analyze and report risk performance

To effectively analyze and report risk performance, one will need tools and technology that:

- ❖ Analyze risks based on quantitative or qualitative parameters
  1. Qualitative risk analysis will require tools that have the capability to classify risks,
  2. According to categories, impact and likelihood.
  3. Quantitative risk analysis will require tools that have the capability to calculate and/or simulate value of risk.
- ❖ Facilitate ranking or prioritization of risks
- ❖ Facilitate trend analysis

- ❖ Aggregate risk information at various levels as required by different levels of
- ❖ Staff/management.

Communicating risk management information

Effective communication facilitates awareness, understanding, and adoption of and commitment to the risk management framework.

The communication tools you will require should ideally have the capability to:

- ❖ Provide easy reporting of and access to risk information for all relevant stakeholders
- ❖ Archive lessons learned from implementing the risk management framework
- ❖ Store risk management policies, procedures and other documents
- ❖ Trace user access to determine reach utilization
- ❖ Provide an audit trail to ensure the integrity of information
- ❖ Enable escalation of risk-related issues and incidents.

Key observations:

- ❖ Targeted risk management maturity will differ for each organization depending on a range of internal and external considerations as outlined above.
- ❖ The value of increasing an organization's risk management maturity will increase as long as the benefits exceed the costs. However, the increase in value is not linear. For example, the value of shifting an organization's maturity from basic to mature is normally higher than from shifting from mature to advance. This is because most organizations can move from basic to mature without spending significant resources while the benefits are likely to be significant. Moving from mature to advance is more expensive, as it typically requires significant investments in software and other infrastructure, as well as significant time commitments by management and staff.
- ❖ Improving risk management maturity requires time and resources. Time can to some extent be substituted by increased focus/effort. Accordingly:
  a. An organization with limited resources and low risk management commitment would take a very long time to reach the desired level of risk management maturity.
  b. Organizations with extensive resources and strong commitment to rapidly enhancing their risk practices may be able to shorten the time required to reach their desired level of risk management maturity.
- ❖ Improving risk management maturity requires balanced enhancement.
- ❖ Developing a proactive risk management culture and embedding/integrating risk management practices in business processes always takes time.

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