Engaging **Senior Partners** on Risk Management

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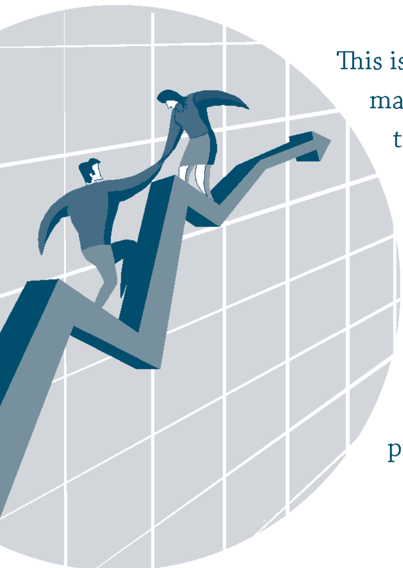
New Year risk resolutions have been made and plans to begin implementing risk management initiatives in your firm are underway – until you realise a major stumbling block in your path – the lack of senior partner(s) buy-in.



This is a common story among risk managers and the difficulties they face in their perpetual fight to gain credence for their work. And in many cases, the inability to communicate and gain senior partner(s) buy-in has accounted for the failure of many risk management projects.

In a survey[1] conducted by the North Carolina State University ERM Initiative faculty involving more than 700 organisations whose 2008 revenues ranged from USD$14,950 to USD$115 billion (with a median for the sample of USD$50 million), close to 40% of the survey respondents cited the 'lack of board or senior executive leadership' as a 'perceived barrier to Enterprise Risk Management (ERM)'.

In the same survey, it was found that for **75% of the organisations surveyed**, the board of directors is asking senior executives to increase their involvement in risk oversight at least moderately, reflecting the increasing awareness of senior executives' involvement being critical to the success of any risk initiatives (refer to Exhibit 1 and 2 below[2]).

Exhibit 1 – **Reported Barriers to ERM Implementation**

Description of Barrier	Percentage Reporting that Barrier is:		
	Extensive	Very Significant	Combined Percentage
Competing Priorities	40%	21%	61%
Insufficient Resources	43%	17%	60%
Lack of Perceived Value	34%	14%	48%
Lack of Board/Senior Executive ERM Leadership	28%	10%	38%
Perception ERM Adds Bureaucracy	26%	11%	37%
Legal/Regulatory Barriers	4%	1%	5%

Exhibit 2 – **Source of Requests for Increased Risk Oversight**

	Percentages		
Extent of Requests for Increased Senior Executive Involvement in Risk Oversight Coming from:	Moderate	Extensive	A Great Deal
Board of Directors	30%	36%	9%
Audit Committee	28%	46%	12%
Internal Audit	30%	43%	10%

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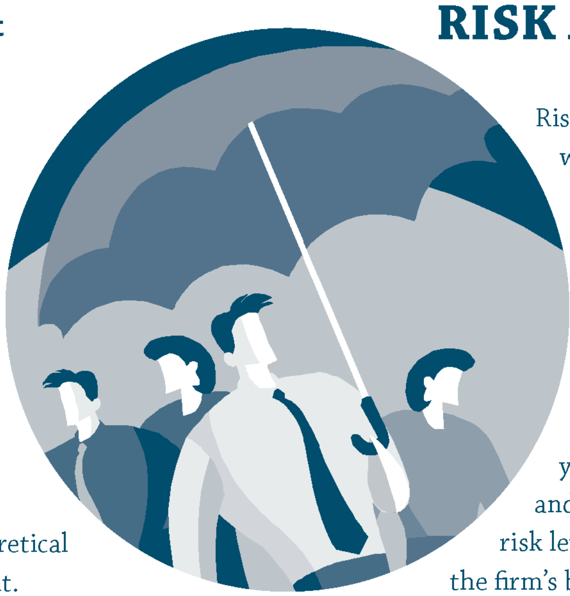
The above merely reaffirms what risk managers have known all along; that senior partner(s) buy-in is absolutely crucial. How then, can **you** attempt to get the commitment of senior partners in your firm?

To address this issue, it will be helpful to first identify what accounts for the reluctance of senior partners to commit to such risk management initiatives and often, the reasons can be traced back to the following:

- **Lack of understanding of the concepts behind Risk Management**
- **Perceived lack of tangible/ quantifiable return on investment to Risk Management**



The first issue can be easily addressed by the easy availability of resources pertaining to this area (such as Jurisk! articles, Risk Management tools and brochures from the Bar Council, as well as the Bar Council's Risk Management Department). These resources will help provide a clear and concise explanation of the theoretical drivers behind risk management.

It is the second issue which is potentially harder to grapple with, that of proving that risk management adds tangible value to the firm. While experts agree that calculating return on investment from Risk Management is difficult, there are practical ways of demonstrating the value it can bring if implemented properly. Here are some examples:

COST EFFICIENCY

What you might find after a coordinated firm-wide risk management initiative is launched is that it helps to consolidate the different risk management processes that your firm already has in place. The consolidation of the numerous risk related activities that are all happening independently in their respective 'silos' through the establishment of common ground and/or reporting mechanisms, among others, can potentially translate into tangible cost savings. For example, there might be an overlap of risk management activities (e.g. management of critical dates, file management and review) across the conveyancing and litigation departments of the firm, such that when consolidated as a single streamlined function, can help to realise potential cost savings.

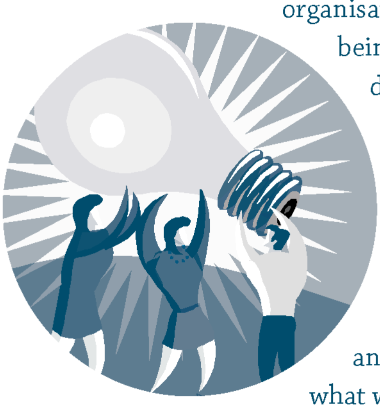
RISK ASSESSMENT/ RISK APPETITE

Risk management implementation would facilitate the conduct of a proper risk assessment. The development of a tailored risk matrix in the process will allow your firm to capture and record relevant risks and its associated severity and consequences. This will provide an opportunity for your firm to review its operations and take into consideration internal risk levels and tolerance when deciding the firm's business strategies with regards to the target clientele group and/or areas of law your firm should enter or exit from, for example tort, family law, copyright law, etc.

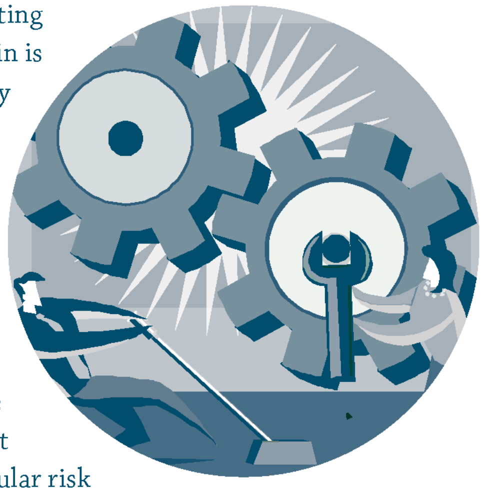
ADDED VALUE

One of the paradox that risk managers face is that the value of their work often only surfaces when unforeseen events occur, or in the case of determining the success of new control systems, when the risk ***never*** occurs. What risk managers need to keep in sight (and mind) is that the actual implementation process of a risk management framework generates value in itself. Often, the greatest value arising from a corporate risk management programme is the development of physical, financial and cultural resilience in the company's overall business, while still focusing on achieving the company's overall business objectives. [3]

Resilience is ever more relevant in today's corporate world, as it positions organisations to bounce back after they have been affected by an incident which, if handled well, can become an opportunity for the organisation as well. Case in point being Nokia and Ericsson's differing responses to a fire in a Philips plant in Alberquerque, which supply 40% of the plant's silicon wafer chips to Nokia and Ericsson. Nokia's prompt and organised response to what was initially perceived as a minor accident saw them suffer no disruption in their production targets, and in the process capitalised on Ericsson's lack of preparation to gain an increase of 11% in market share at their rival's expense. [4]



IN CONCLUSION, getting senior partner(s) buy-in is but a step (albeit a very important one) towards the successful implementation of any risk management initiative. You would do well to consider the plethora of factors that could affect any particular risk management project. So go forth and sweep your partners off their feet as you seek their commitment on the way to the successful implementation of your risk management initiative!



1 'Report on the Current State of Enterprise Risk Oversight', Mark Beasley, Bruce Branson and Bonnie Hancock, March 2009. | 2 Ibid. | 3 'Risk Management in Practice: Adding Value through ERM', Bronwyn Friday, 15 March 2006. | 4 'The Resilient Enterprise: Overcoming Vulnerability for Competitive Advantage', Yossi Sheffi, The MIT, 2007.

MARK THESE EVENTS

News Flash! Risk Management Roadshow is coming to town.

PAHANG BAR
14 May 2010
3.00-5.30pm
Pahang Bar Auditorium

KEDAH/PERLIS BAR
24 June 2010
3.00-5.30pm
Venue: To be Confirmed

PENANG BAR
25 June 2010
3.00-5.30pm
YMCA Penang
211 Macalister Road

JOHOR BAR
16 July 2010
3.00-5.30pm
Johor Bar Auditorium

BAR COUNCIL, KL
To Be Confirmed

Details are correct at time of print. Bar Council reserves the right to change dates and/or venue without prior notice to members. For more information, please contact the PII & RM Department officers. Their contact details are on page 12.