

Risk Management for the 21st Century Requires a Proactive Approach

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The current risk management process was adopted in response to the post-Enron fraud scandal which eventually precipitated the passage of Sarbanes-Oxley (SOX) in 2002. This was primarily aimed at accounting and financial practices. It did, however, encompass all areas of an organization, placing stringent requirements on managing/mitigating potential risks. In response, businesses ramped up using excessive resources – both dollars and personnel. The process itself involved not only risk assessments but in many cases also a formal structure around testing, periodic reviews and lengthy risk profile documents, findings and resolutions, a centralized management structure to monitor the program and finally Governance, Risk and Compliance applications (GRC) to document and monitor the information. This extensive process utilized functional resources across the organization as well as those in the centralized function. As its focus was primarily financial, it did not recognize many of the other factors which businesses may face as potential risks. While over time the programs may have incorporated a wider scope of risk factors, the approach and structure has not been updated to reflect the fast paced and changing business landscape. Take for example the Technology Revolution fueled by artificial intelligence. This along with economic uncertainty, geopolitical pressures, employee skill set changes, and changing consumer demands and expectations has impacted businesses opportunities for growth and profitability. Couple this with a stagnant approach to risk management that drains critical resources and lacks the ability to support a proactive approach to issues.

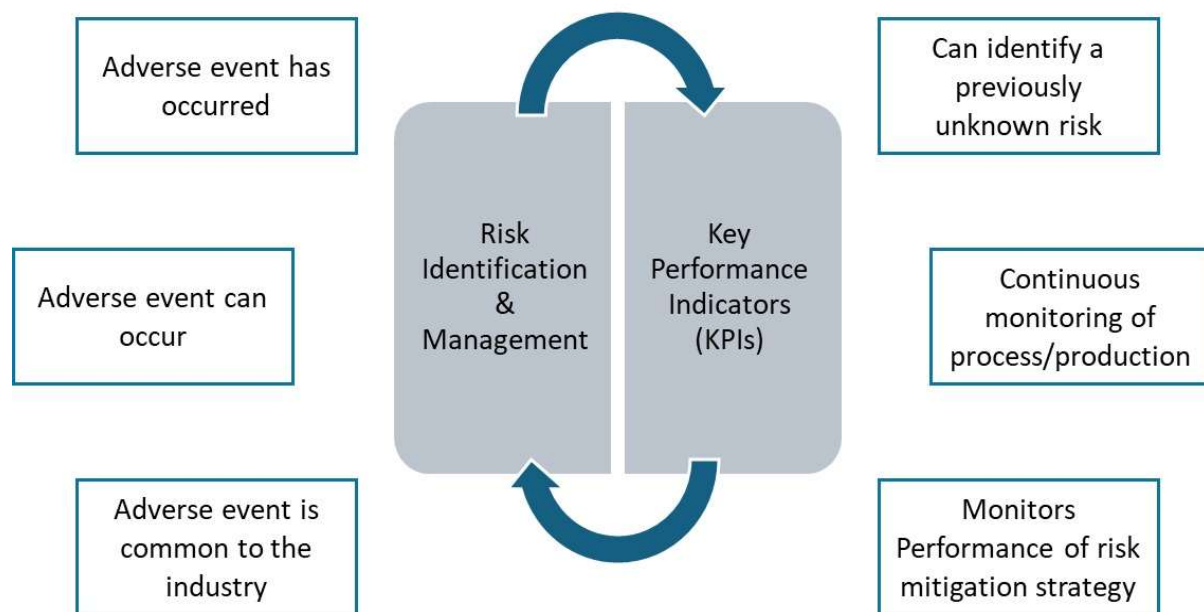
The current business environment requires management to have a mechanism in place that supports proactive management of issues. Currently, there are existing tools that if merged, can provide an effective approach that moves toward proactive management. Keep in mind that proactive management translates to better productivity and profitability.

While it is recognized that some industries may require a formalized structure due to regulatory requirements, many industries can receive benefits from a streamlined and focused approach. Even in cases where formal structures are in place, a proactive approach can provide benefits as it identifies issues on a near real time basis thus resulting in an earlier resolution. Keep in mind that issues left to linger for weeks and months have significant adverse impacts on costs, quality and ultimately customer satisfaction and retention.

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This transformative approach is creating an alignment between risks and key performance indicators. In the past these metrics were synonymous with managing quality and efficiency of an operation. They are, however, also indicative of potential risks as well as a potential near time monitoring of the risk/control environment. By identifying functional level significant risks and tying them to metrics that can have an impact on these risks, management can have insight into problems sooner and thus react. Furthermore, this alignment concept fosters an analysis that can be utilized to expand the focus of questions and investigations related to the potential issue identified when metrics breach targets. Previously the metrics may not have resulted in identifying the real root cause for the issue. Conversely, knowledge of the risks related to a functional process may identify the need for additional metrics. In either case, this alignment fosters improvements to operations, cost reductions for rework and scrap, and quality improvements. The interrelationship between these two powerful tools can move business to a proactive approach that results in opportunities for growth and profitability.



For further details visit our website at <https://www.smbizconsult.com> for information on this powerful and transformative risk process. Our publication, "Risk Management and Key Performance Indicators" (available on Amazon) authored by Joanne Bronish who has 20+ years risk experience, can provide you with details on this program as well.

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