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Finance Takes the Lead in Risk Management

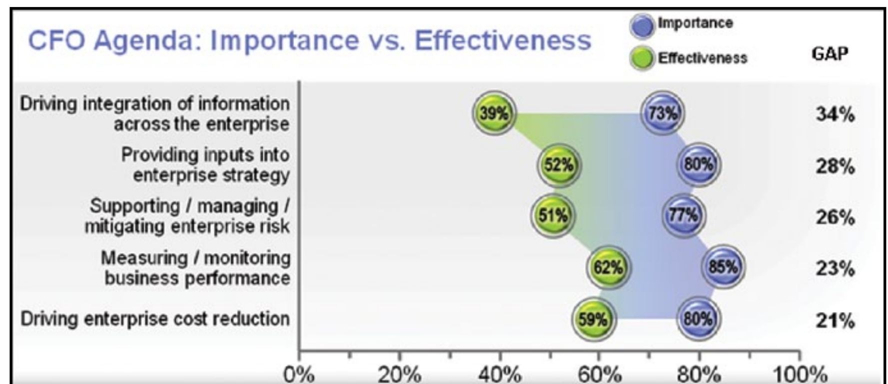
Delbert Krause, Business Unit Executive, Cognos Software, IBM Information Management

This essay is part of a series, *Controllers' Corner: Two-Minute Essays on Financial Management and Control*, which asks industry thought leaders for their opinions on critical issues facing today's finance organizations.

Governance, risk and compliance (GRC) cover a broad range of issues and processes across finance, IT, and lines of business. The recession has increased the pressure on Controllers and Finance Directors to identify the most serious risks, and set priorities for the actions necessary to address them.

Q. How should finance organizations evaluate the priorities for risk management?

The events of the last year have clearly elevated the importance of understanding and managing risk. In many organizations, the CFO is being tasked to take the lead in delivering better risk management policies and procedures. In recent studies, risk management has risen to a level of importance alongside enterprise initiatives to reduce costs and increase revenues. With the tremendous responsibility for financial accuracy in the Controller's or Finance Director's office, the entire finance team is on red alert to embrace risk management in their financial processes.



A substantial gap exists between the importance of various finance capabilities, and their current effectiveness.

The 2010 IBM Global CFO Study collected input from more than 1900 CFO's globally, and found that 77% of the participants ranked risk management as very important, while only 51% indicated that their current processes were effective.[1] Clearly, risk is top of mind for CFO's and their finance teams.

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Embracing the mission and spending the necessary resources on risk have been challenging for most organizations. First, risk and risk assessment have historically been viewed as activities outside the traditional domain of financial management. Risk officers and teams have routinely created risk profiles for key business processes independently, with many organizations willingly embracing this separation of responsibilities. Second, spending on risk, that is, obtaining approval and justifying hard expenditures, has been difficult. How does one justify spending scarce dollars to make sure that something "doesn't happen"? Our business culture typically demands returns that are measured in hard dollars, either in expense decrease or revenue increase. The benefits of investing in risk management are less quantifiable but just as critical.

Thankfully, much of that is changing and finance teams are pursuing new risk-related initiatives. In particular, the Controller's or Finance Director's offices are now including risk reduction in their mandate. Common activities such as financial consolidation and reporting, along with other performance management processes, are now viewed as critical to supporting a risk management culture.

There are two courses of investment that companies are tracking. The first focuses on absolute financial accuracy and the associated internal controls in the consolidation cycle. Modernization of this critical process is necessary not only to meet minimum audit standards, but also to ensure that the financial data and risk is being measured with exacting accuracy. Too often, organizations live with a level of uncertainty around data quality and accuracy that creates risk in financial insight for both internal and external stakeholders.

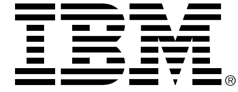
The second area of investment is in linking risk in closer alignment with performance management processes and systems. Many organizations have adopted a planning culture that enables them to better anticipate outcomes and react to the latest information. The introduction of important risk variables and probabilities into the standard business metrics enables companies to associate risk with revenue-generating activities. Business leaders are now being asked to quantify their forecasts by including answers to questions such as, "What is the percentage chance that a customer will order only 75%, 50%, or zero percent of an expected amount?" or other risk measures that include local external economic indicators or competitive insights. Note that we are not asking business leaders to become risk experts, we are simply layering business plans with risk metrics to enable risk teams to create a risk footprint for the company. And, of course, connected enterprise reporting or business intelligence systems enable quick delivery of dashboards or standard reports to finance teams to help them compare risk and business views.

In summary, what are the priorities for risk management? This is a difficult question and one whose answer will be very specific to each company. However, we believe that embracing risk as part of the performance management process is an excellent first step. Within that mandate, modernization of processes, controls and systems for financial consolidation and corporate reporting, as well as integrating risk metrics and profiles into related planning and reporting processes, can help companies incorporate risk management into their important business activities, and perform the invaluable task of keeping enterprise risk at a minimum.

About Delbert Krause

Delbert Krause is the Business Unit Executive, Financial Performance Management Solutions, for Cognos Software in the Information Management division of IBM. In addition to his formal training in finance, Mr. Krause has more than 20 years of experience in consulting, selling, and marketing performance management software solutions for finance, business and IT users. Mr. Krause can be reached at delbert.krause@ca.ibm.com.

[1] IBM Institute for Business Value, *The New Value Integrator: Insights from the Global Chief Financial Officer Study,* March 2010



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3755 Riverside Drive
Ottawa, ON, Canada K1G 4K9

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