Risk Insights

Risk, Response and Reduction: Strategic

Risk, Response and Reduction Encompasses Strategic Goals

A COMPANY DECIDES to outsource significant portions of its production to overseas contract manufacturers. Such outsourcing promotes greater efficiency and the potential to focus resources and domestic operations on value-added activities.

While offering those prospective benefits, that outsourcing strategy also exposes the company to an array of vulnerabilities that it must address to stay within its risk appetite.

Potential political instability abroad is an issue the company faces. Through various online news services, the company can monitor that concern. Uncertainties regarding the internal operations of foreign contract manufacturers present considerable risk. In response, the company can require appropriate ISO certification from its contract manufacturers. Such certification presents a measure of international assurance regarding the consistency and quality of a manufacturer's operations.

While responding to those and other concerns, the company can also take steps to mitigate vulnerabilities that still present unacceptable levels of risk. In addition to requiring ISO certification, the company can have an employee onsite at each overseas location to immediately address any difficulties that may arise. The company can also reduce the volume of work it initially planned to outsource as a way to mitigate the risks that accompany any substantial operational change. Through such efforts, the company assures that the remaining level of uncertainty—the residual risk—does not exceed its risk threshold.

Strategic Emphasis Directs All Risk Evaluations

RECOGNIZING THE IMPORTANCE of addressing and mitigating risks at the strategic level provides a foundation for continually addressing vulnerabilities as they emerge.

Those threats may come from new or revised compliance requirements, an increasingly integrated global economy, technological advances, marketplace changes, and other internal or external vulnerabilities that arise as a company executes its business strategies.

Continually integrating risk recognition with business strategies allows an organization to focus more on anticipating change, rather than just reacting to events as they unfold. Such responsiveness enables an organization to reduce the likelihood or potential impact of adverse events.

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Continually evaluating potential risk exposures also uncovers opportunities that would have otherwise gone unnoticed. The need to identify and mitigate risks associated with Sarbanes-Oxley compliance, for example, causes many publicly-traded corporations to examine and resolve long-standing disparities in transactional processes and IT systems, thereby enhancing organizational efficiency.

Responding to risks at the strategic level protects the organization, and related efforts to reduce threats assure that identified risks do not exceed the organization's risk appetite. That strategic emphasis provides a foundation and direction for addressing and mitigating risks at the entity and process levels.

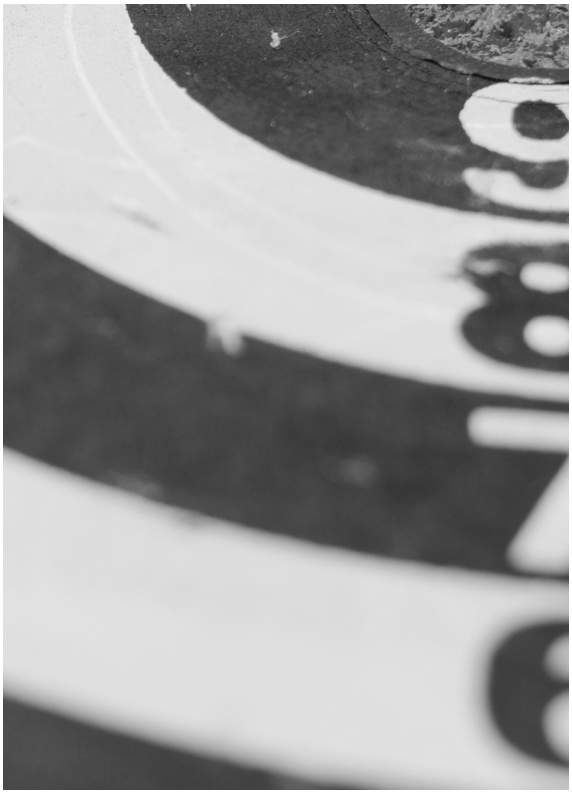
Leadership Commitment Builds Strategic Value

CONTINUALLY ADDRESSING RISKS requires involvement from the audit committee, board of directors and senior managers, including the chief executive officer, chief risk officer and chief financial officer.

Senior management must continually emphasize the importance of ethical behavior, the need to protect the company's assets and the value of recognizing, addressing and reducing risks as they emerge. Effective governance also entails defining and documenting steps the organization will take in response to adverse events.

A disaster recovery plan, for example, details how an organization will respond in the event of a tornado, flood, hurricane or other catastrophe. Rather than relying upon ad hoc decisions made under duress, proactive planning drives a company's response to such events. That preparation enables the organization to not only address the immediate impact of a disaster more efficiently and effectively, but to also minimize the cost of ensuing business disruption.

Such leadership commitment provides institutional support for applying similar diligence throughout the organization, thereby promoting attention to risks at all levels.



Addressing Risks Requires Continual Attention

TO PROVIDE LONG-TERM STRATEGIC VALUE, an organization's focus on responding to vulnerabilities and mitigating risks must remain constant amidst whatever changes or events the organization faces. Establishing such continuity requires that risk-related efforts be efficient, effective, sustainable and scalable.

Dashboard reporting systems provide efficient tools for monitoring key performance indicators (KPI) in real time. Those KPIs signal a potential downward trend in sales or other potential threats, allowing managers to take steps to reduce those vulnerabilities. For financial reporting and other crucial functions, automating manual processes whenever possible promotes further efficiency and constant vigilance.

> "Incorporating **best practices** represents an effective means of continually addressing and **mitigating risks.**"

Incorporating best practices represents an effective means of continually addressing and mitigating risks. Organizations outsource a host of data processing functions to service providers. Requiring that a service provider supply a SSAE 16 Service Organization Controls (SOC) Type 2 report constitutes a best practice for such outsourcing. That report assures that the vendor's efforts in identifying and mitigating its risks were deemed effective by an independent auditor.

A company must sustain its efforts to identify and mitigate vulnerabilities. Investigating tips from employees enables companies to uncover incidents of fraud or other improper behavior. Deploying a hotline that enables individuals to anonymously report suspicions of such conduct provides a sustainable means for continually addressing that risk.

To accommodate organizational changes that occur over time, efforts to limit vulnerability must be scalable. Embedding responsibilities for addressing and reducing risks within routine processes and work responsibilities ensures that such diligence remains constant amid evolving operational functions and organizational expansion. Incorporating such characteristics into risk identification and mitigation efforts enables the organization to continually respond to potential threats as they emerge.

Top-Down Approach Directs Attention to Most Crucial Risks

A COMPANY CANNOT ELIMINATE ALL RISK EXPOSURE; varying degrees of residual risk will always remain. However, by taking a top-down approach that focuses attention first on the most crucial risks, an organization assures that the residual risk remains within its risk appetite. Accepting risk at the company's tolerable level is directly linked to the success of a business strategy.

Oil companies face industry cycles of expansion and contraction, along with constant fluctuations in price. To respond to the risks that accompany such cyclical movements, those companies rely upon detailed actuarial analysis to project future price movements and to assess where current prices stand in relationship to upward or downward trends. They also mitigate price volatility through hedge contracts that establish fixed payment rates and through partnerships or joint operating agreements with other companies.

Organizations operating in other business sectors face their own industry-specific threats. They face crucial risks related to their business strategies and goals, too. A regional company wishing to grow into a national entity, for example, faces risk from taking on too much debt to finance expansion, or from not having strong enough internal functions in place to manage growth.

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Crucial risks vary over time as well. Negative industry publicity may pose a serious concern one year, while proposals for potentially adverse legislation could require attention the following year. Identifying risks that threaten the organization at the entity level then leads to evaluations of the internal processes related to those risks.

> "Taking a **top-down approach** in evaluating risks **assures** that **crucial risks** are addressed."

With whatever scenarios an organization may be facing at any given time, taking a top-down approach in evaluating risks assures that the most crucial threats are addressed, that unacceptable vulnerabilities are reduced and that the remaining residual risk stays within the organization's risk appetite.

Sustained Emphasis Delivers Lasting Value

PLACING STRATEGIC EMPHASIS on addressing and mitigating risks assures that identified risks do not exceed an organization's risk threshold and that the company's risk appetite remains aligned with its business strategies. That emphasis protects an organization amidst the constant changes it faces in its internal and external environments.

A company gains a competitive advantage when its efforts to recognize and reduce risks become standard, internalized functions. In such a corporate culture, the resources devoted to identifying and lessening vulnerabilities serve as vital long-term investments, not residual expenses.

CONTACT US

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Weaver's risk advisory services are strategic, executable and measurable– and our nimble process is designed to help companies remain optimally functional as they identify and manage risk. We work closely with our clients to customize services that fit their existing staff structure and operations. Integral to this sensitive work, we believe our communication skills are as valuable as our technical knowledge and professional insight. You will experience thoughtful, purposeful communication throughout the process. Specific services we provide include:

- Business continuity planning
- Business process improvement
- Contract monitoring and compliance
- Enterprise risk management
- Internal audit
- Internal control evaluation
- Integrated financial and IT audit
- Performance audit and measurement
- Regulatory compliance
- Risk assessment
- Sarbanes-Oxley compliance

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