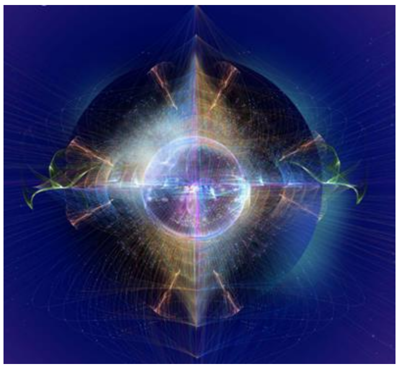
WSJ RISK & COMPLIANCE JOURNAL

Looking for Business Growth? Appoint a CRO

Effective chief risk officers often prioritize developing an integrated risk management function that delivers enterprisewide value.



Organizations that have a dedicated chief risk officer (CRO) or equivalent are more likely to take a strategic approach to risk management—and enjoy higher business growth, according to a Deloitte survey[1] of CROs and other C-suite executives. The survey indicates that organizations achieving the greatest gains from risk management view the function as having strategic value above and beyond its traditional focus on compliance and loss prevention. By appointing a CRO, organizations signal the strategic importance they place on risk management, according to the survey responses.

Nearly all respondents are keenly aware of the vital role that risk management plays in strategy: More than 90% expect risk management to become more important to achieving strategic goals in the next five years. Among the organizations surveyed, companies with a compound annual growth rate (CAGR) of 5% or more were twice as likely to view risk management as important to achieving strategic goals than those with a CAGR under 5%. In addition, organizations that exceed a CAGR of 5% are far more likely to have a CRO.

ENLARGE

CROs are more likely than other executives working in risk areas to value the importance of risk management in achieving strategic goals, and far more likely than C-suite risk nonowners to do so, according to the survey results. Depending on the company, C-suite risk nonowners could include chief officers leading operations, marketing, and human resources, for example. Organizations with a CRO also are more likely to focus risk management efforts on the risks that matter most to the achievement of strategic goals.

Risk Management Reporting Lines

For many organizations, elevating risk management to a position that reports to the C-suite or board entails not only appointing a CRO, but also giving that executive a seat at the table to influence major decisions and initiatives. At organizations with no CRO, risk management most often reports to the CEO (32%), and less frequently to business unit heads or another senior leader not primarily responsible for risk.

ENLARGE

In the absence of a CRO, second-line risk management functions, such as compliance, cybersecurity, health and safety, and operational risk report to the CEO, to another senior officer, or to multiple officers. However, such non-CRO reporting lines can impede integration of risk management processes across the enterprise as well as senior executives' ability to attain a holistic and enterprisewide view of risk, according to the survey report.

'*CROs are more likely than other executives working in risk areas to value the importance of risk management in achieving strategic goals*'

For organizations with a CRO or equivalent, C-level responsibilities include overseeing day-to-day risk management that resides in the business—the first line of defense—as well as oversight of compliance, cybersecurity, and similar second-line functions. Internal audit (the third line) continues to provide assurance.

Only about half of the companies surveyed have elevated responsibility for risk management to the C-level. Appointing a true CRO indicates that risk is a senior-level concern and function, on par with operations, finance, HR, and IT, notes the report. Additionally, 91% of risk programs self-rated as "excellent" have risk management represented in C-level meetings "always" or "most of the time," while 80% of programs rated as "fair" or "poor" do so half the time or less.

Risk Management Presence at C-Suite-Level Meetings is Positively Related to Program Effectiveness

How would you rate the effectiveness of your company's risk management program?

Risk management has a seat at the table ...

	Always	Most of the time	Approximately half the time	Occasionally	Rarely
Excellent	45%	46%	5%	2%	1%
Good	12%	54%	21%	11%	3%
Fair	10%	10%	40%	37%	3%

Source: Deloitte 2019 risk management survey.

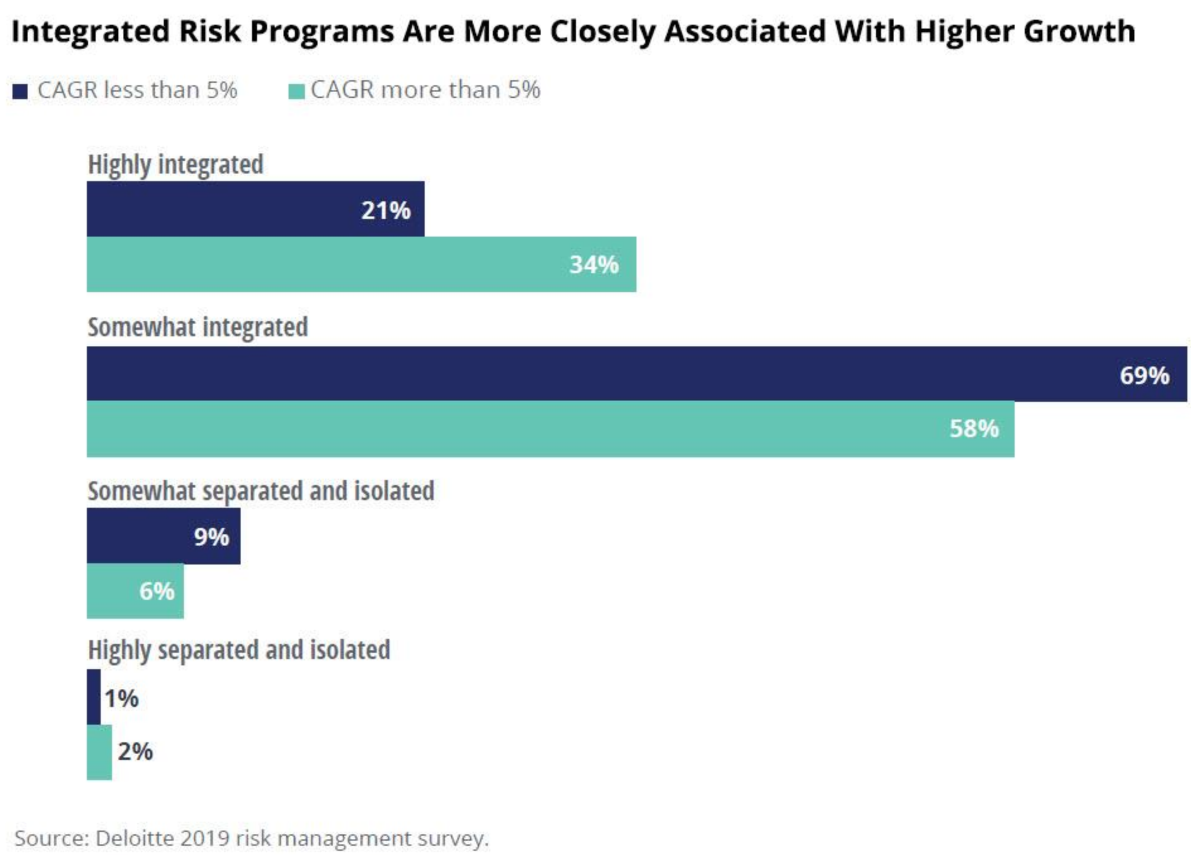
ENLARGE

Investment and Integration

Organizations that invest significantly in risk programs tend to realize more value from risk management, according to the survey. Those organizations take a risk-based approach to resource allocation and make investments in people, processes, and technology in areas of the business that pose the greatest risk or opportunity, often monitoring their risk profile and appetite to dynamically calibrate investments. The outlays can be substantial, but the results are tangible. Survey respondents whose organizations spend more than $10 million on risk management annually are more likely to rate their risk programs as "excellent" or "good" than those spending less.

An integrated approach to risk management is another critical factor in optimizing the function for strategic advantage. This involves developing enterprisewide methods of identifying, assessing, monitoring, and managing risks. Companies with highly integrated risk programs exceed profitability targets more often and achieve higher growth than those with less integrated programs, which may struggle to realize value and achieve desired outcomes, according to the survey findings.

Among organizations that reach a CAGR of 5% or higher, about one-third characterize their risk programs as highly integrated; only about one-fifth of those with a CAGR under 5% rate their programs as such. Just about one third of CROs and a quarter of risk managers and C-suite risk nonowners view their risk management programs as highly integrated.



ENLARGE

A surprisingly high number of CROs (18%) consider their risk programs separate and isolated. This assessment may reflect either a more informed view of risk management or a stricter definition of “integrated” than those of the other respondent segments. Companies with the greatest need to integrate risk management programs may be most likely to appoint a CRO to address the situation, notes the survey report.

*****

Organizations widely acknowledge the strategic importance of risk management. To realize its full potential, it is vital to elevate the function to the C-suite by appointing a CRO or equivalent who recognizes the role of risk in achieving strategic goals and has the standing to influence major decisions and initiatives. Doing so can produce positive results.

—by Chris Ruggeri, national managing principal and Risk Intelligence market leader, Deloitte Transactions and Business Analytics LLP, and Keri Calagna, principal, Risk Transformation leader, Deloitte & Touche LLP.

Endnote

1. Deloitte's 2019 survey of risk management captured the opinions of 100 executives with the title of chief risk officer or equivalent, 100 C-suite executives not primarily responsible for risk, and 300 executives in risk-related functions such as IT and operational risk. The sample was drawn from U.S. companies with at least $500 million in annual sales in a cross-section of industries.