The Chief Risk Officer: your business ally

As Enterprise Risk Management increasingly becomes a regulatory requirement within the Gulf Cooperation Council countries and the wider Middle East region, we take a look at the merits of the Chief Risk Officer and the requirements for their success.

Whether or not the Chief Risk Officer (CRO) should be reserved a permanent seat within the exclusive "C-Suite" is a hotly debated topic. Company executives and academics alike question the need to have a figurehead dedicated to overseeing Enterprise Risk Management (ERM) within organizations. Given that CROs are not required to own business risks, nor are they specialists in all risk areas, a common thought is that if a company adopts an enterprise-wide risk management program and has an embedded risk-aware culture, it should be able to run itself.

Herein lies the problem. Too few organizations have been able to successfully implement a fully-integrated risk management program. This has been particularly evident in the aftermath of the global financial crisis. And with accountabilities of senior executives rapidly increasing it makes it difficult for Chief Executive Officers and Chief Financial Officers to dedicate sufficient time to the finer points of risk management. The CRO should therefore be a welcome member to any "C-Suite". To be effective, however, companies need to be mindful that the right person is selected for the job.

The evolving role of the CRO

Businesses today still regard the CRO as the new kid on the block. The role has a short history and its inception can be pinpointed to 1993 when GE Capital gave James Lam a role that combined credit, market and liquidity risk management. Initially, the CRO position was most prevalent within the banking and insurance industries given the stringent regulatory obligations and high financial risk exposures involved. However, with many corporate failures being attributed to ineffective Governance, Risk and Compliance (GRC) systems, CROs can now be found in many other industries such as energy, oil and gas, large multi-nationals and government organizations. These company boards,

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CEOs and CFOs realize that they alone cannot provide their stakeholders with the level of comfort they are demanding in an increasingly complex business environment.

In addition to the greater CRO presence in non-traditional risk management industries, the breadth of the CRO mandate has increased. Gone are the days when a CRO would be solely responsible for financial risks. With the dismantling of global barriers, rapidly evolving technology and government legislators and shareholders calling for company executives to have greater accountability for corporate failures, the scope of the CRO role needs to be expanded now more than ever.

Key attributes of an effective CRO

To be effective, a CRO needs to be a strategist and wear multiple risk management hats. Their task is typically to provide an integrated view of risk, whilst having the ultimate goal of embedding an evolving risk management program that considers the full spectrum of risk. CROs do not need to always command from above, rather, they should be viewed as business advisors, leaving line managers and employees at the frontline of the business to make risk informed decisions, within the established risk framework. The role, however, does need to be sufficiently empowered to enforce risk tolerance thresholds, with an authority to reprimand those who are in breach.

Companies looking to appoint a CRO should only consider applicants with strong business acumen and broad-based business skills. Some of these skills include project management skills, an ability to change organizational attitudes and cultures and an ability to grasp strategy, governance, compliance and performance systems.

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Obviously, a full understanding of all ERM principles and techniques is essential for a CRO position. In particular, there is a growing need to understand the correlations and interdependencies across business risks and risk types. It is commonly acknowledged that the whole does not equal the sum of the parts (i.e. that things may not be as they seem) due to natural hedges and mutually amplifying risks. In light of this and of the potentially disastrous ramifications of not understanding such concepts, companies, at a minimum, need to ensure they appoint a CRO who does.

The CRO also needs to be an excellent communicator and influencer. Being able to communicate risk issues to employees, corporate stakeholders and board members is essential for a CRO, whilst being able to influence organizational decision makers to make risk-based decisions is also critical.

Ultimately, an organization needs to determine what it requires from a CRO and develop a clear mandate for the role, clearly defining its requirements, in addition to the risk management fundamentals.

Critical success factors for businesses looking to appoint a CRO

While an organization can appoint a "best in class" CRO that ticks all the necessary CRO boxes, if the organization does not fully embrace and acknowledge the role, it will be doomed to fail from the outset. Businesses should consider the following critical success factors to ensure they get the most from their CRO.

1. **Tone from the top**
   Executive commitment is crucial. Support needs to be given from senior executives and the board. The leadership team needs to believe in the role.

2. **Provide direct access to the CEO and the board**
   The CRO is a high profile role within an organization and needs to be treated that way. The CRO must have clearly defined reporting lines, reporting directly either to the board or to the CEO for example. Without a defined reporting structure the role may not be perceived as critical and the key players in an organization will not have unfiltered access to the real risk issues.

3. **View the CRO as an enabler**
   The CRO can be the risk management eyes, ears and voice of the board while it is not in session. For senior management, the CRO can provide reliable risk-based information to enable informed decision-making. The CRO can spearhead the implementation

of a robust risk framework that highlights potential risk issues through early warning indicators, thereby enabling an opportunity to be pursued or preventative action to be taken. This senior position should not be seen as a roadblock.

4. **Mandate risk ownership**
   The CRO cannot be seen as the owner of business risks. Rather, it is the line managers who are responsible for the management of day-to-day risks. The CRO is responsible for establishing a risk framework to assist in the identification, assessment and management of risks as well as analyzing the risk information provided by line managers to create an enterprise-wide risk profile. Accordingly, the CRO requires the business to mandate risk ownership, possibly through performance measures and incentive schemes.

5. **Provide sufficient resources to execute**
   A CRO, or any ERM program for that matter, will not be effective if only a CRO is appointed to implement ERM in an organization. A CRO needs resources to roll out an integrated risk program. Whether it is through externally hiring risk managers, appointing and training internally or both, the CRO needs resources to effectively execute the risk mandate.

If organizations are serious about risk management they require a dedicated senior role to spearhead the program. It is the only way to ensure that ERM will be fully embraced. This is why the role of the CRO should be here to stay. The business environment is only becoming more and more complex, so why would the board, CEOs and CFOs not want to share the corporate accountability load with another permanent "C-Suite" member?

by **Lauren Brown**, senior manager, Enterprise Risk Services, Deloitte in the Middle East

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