WHITE PAPER 2015

Risk Management

Implementing the French RM framework

"For an improved operational performance through processes optimisation and a Risk Management fuller integration"

AMRAE
L'ASSOCIATION

About AMRAE

The ***A**ssociation pour le **M**anagement des **R**isques et des **A**ssurances de l'**E**ntreprise* (The Association for Corporate Risk and Insurance Management) comprises more than 1000 members from 700 French public and private sector firms.

One of the association's objectives is to develop a Risk Management "culture" within organizations and to assist members in their relationships with insurance market actors and public authorities. The association advises members on risk assessment, funding control and insurance spending.

In order to answer professional training expectations of its members, who legitimately look to the association for support, its entity called AMRAE Formation provides high-level, certified and graduate formation.

This book is a translation of part 1 and 2 of APDC White Paper published in 2012 and written by AMRAE and APDC with support from the DFCG and in partnership with KPMG and BMA.

We would like to take this opportunity to thank all those who have contributed to the realization of this manual

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- We thank Jean-Paul Louisot, Member of AMRAE who made this translation.

Editorial

The transposition into French legislation of the European Union Directives has triggered a number of reactions, discussions and awareness and at the forefront the need for all organisations to develop and implement an efficient management of risk. This increase visibility on risk management, not a new topic but often limited so far to raising the level of risk culture within the organisation, encourages and sheds a new and positive light on managed risk taking as creating value.

In this context, the regulator[2] has updated in 2010 his framework published in 2007 on two issues: risk management and the role of audit committee, which will not be addressed in this document.

The development on risk management is entirely new and it is worth noting the dual purpose of the regulator: *"Improve the monitoring of the activities and secure the objectives."* Therefore, this regulation should not be perceived as a constraint. Practitioners, auditors, and professional organisations understanding the context have decided to develop a positive, structured, and tailored approach to implement the framework. The basic idea is to transform a potential constraint in a fundamental element for the performance and the improvement of the organisation.

A number of exchanges have allowed designing a five key steps path from compliance to performance. With the present approaches, organisations progress simultaneously on several fronts: strategy and process reliability, ethics and governance. It is the combined strength of all these drivers that ensures the overall organisation's maturity, the optimal performance can be reached only if all these elements are managed efficiently.

At the end of its project, the group has wished to offer to the financial officers a set of tools used by all the participants. These tools aim at serving as a source of inspiration, while remaining practical for the implementation of the framework. The set is not intended for exhaustive implementation in any single organisation.

The objectives of this white paper is to seek performance rather than compliance, pragmatism rather than theory, a pathway focused rather than scattered.

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[2] AMF – French regulator for Financial Markets in France

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Executive Summary

In July 2010, as a part of the process of transposing the European Union Directives, into the French legal system, the AMF introduced a risk management dimension within its framework and specified that its intention was to propose a progress tool, going much further than a mere compliance. The framework sets out some principles and proposes some questionnaires. It includes a specific reference to risk management without providing an implementation guideline.

Taking into account that what is at stakes is the improvement of the performance in the execution of the operational activities, and the need for robust economic models, the drafting team was set up to develop implementation for the framework to open a new perspective in term of organisations' evolution, transformation, and performance. The paper resulting from the discussion is organised in two parts:

- In part one; we suggest to the CFO the steps in an evolution path to go beyond regulatory compliance to improved performance, thanks reasonable optimal risk taking. This path includes the modelling of processes, an improved understanding of risks, followed by the transformation of operational practices, to end up establishing a continuous progress approach in the execution of operational processes. When the path has been completed, the CFO will have established a sustainable management practice of a cultural process approach together with reasonable risk taking. This culture is the best rampart of protection and growth for the organisation's economic model.
- In part two, we offer an implementation guide. It supply to the staff of the finance department that will be in charge of implementing the package a set of tools that will allow them to develop the road map to evolution. The package is made of technical forms describing the content of the step, a toolkit, and feedback loops. For each step, we suggest tools that have been already tested by members of the group. The toolbox is more like a suggestion box where each team can borrow ideas to adapt and tailor the tools to the organisation's specific needs and circumstances.

The development of the reasonable risk taking culture, the performance and robustness of the economic model are initiated as early as the first step to ensure alignment of performance and compliance.

During the group proceedings, it was established that to exceed the knowledge of risk areas and exposures, and progress towards performance improvement, it is essential to include an additional dimension, the process approach. We believe that mastering process modelling associated with a strong risk culture is essential driver of success in the transformation effort.

Such a dynamics will open to the process approach different positions and trades not usually inclined to do it, thus allowing them to improve other topics like information systems, and management systems like ABC, lean management, or an independent transversal vision of the organisation.

Thanks to this project, the finance department consolidates its progress towards a business partner's status.

Caveat

The present translation is limited to part of part 1 and part 2 of the whitepaper relating to the integration of Risk Management and Performance enhancement i.e. pages 15 to 51 extracted from the 160 pages document.

I THE CFO PATH TO RISK MANAGEMENT

1) Risk Management in a few words

Any organisation's objective is to take measured risks, i.e. take risks but not at any cost. All managers, all organisations through the ages have dreaded yet taken and managed risks.

However, in the current international context of globalisation, where mega size companies are developed, it is more and more difficult for top management to know their exposures and put in place relevant radar to monitor constantly their major threats, and the lack of opportunities. The risk management framework offers the structured and formalised mean for bottom-up information on threats and their prioritization.

As far as the internal control framework is concerned, it organises systematically and automatically operations reliability.

• The Risk Management framework

Within the AMF framework, risk is defined as: *"Risk is the possibility that the occurrence of an event will produce consequences which could impact people, assets, the environment, the organisation's objectives, or its reputation."*

Risk is characterized by one or several sources (dysfunctions, or risk factors) and one or more impacts (consequences).

Within the AMF approach, the risk management framework is defined as: *"Risk management includes a set of means, behaviours, processes, and actions tailored to the characteristics of each organisation allowing top management to maintain risks at a level acceptable for the organisation."*

Risk management's objectives as set by the AMF approach include:

- Protecting value: create and preserve the value, the assets and the reputation of the organisation;
- Securing process execution: decision making process security, and the organisation process to enhance objectives achievement;
- Enhancing Values: ensure coherence of actions within societal values;
- Sharing understanding of risks specific to the organisation: mobilize the organisational staff on a common vision of the major risks and raise their awareness of risks specific to their activity.

The four components of the risk management framework suggested by the AMF are:

1. Risk management objectives,
2. Organisational frame,
3. Risk management process:
    a. Risk identification
    b. Risk analysis
    c. Risk treatment (major risks)
    d. Monitoring and review

In other words, the Risk Management framework sets up the mechanisms that will facilitate the detection of dysfunctions and undesirable risk taking.

Its main purpose is be proactive *(anticipate risk)* contrary to internal control that aims at being reactive *(protection against revealed risks)*.

The RM framework has three main characteristics:

1. **Global**: It is global in scope and covers all activities, processes, and assets of the organisation. Hence, Risk management is everyone's business within the organisation (operational as well as support functions);
2. **Dynamic**: Risk Management is a dynamic device for the organisation, not a static one. It is the organisation's responsibility to develop and implement risk management as an evolution project. It evolves year after year to follow the markets and activities evolution. It must be adjusted according to noticed and foreseeable evolutions of the context in which the organisation operates;
3. **Tailored**: Risk Management must be organized and adapted to the organisation's size so that the effort is aligned with what is at stake in the organisation, and its orientations.

• The Internal Control framework

Within the AMF approach, internal control is defined as: *"Internal Control is an organisation's function developed and implemented under its responsibility. It includes a set of means, behaviours, processes, and actions tailored to the characteristics of each organisation that:*

- *Contribute to the conduct of activities, operation efficiency and effectiveness (optimal use of resources); and*
- *Allow it to take into account the significant risks appropriately, whether they are operational, financial, or compliance."*

In other words, the Internal Control function, through behaviours and processes, aims at enhancing the reliability of operations as well as accounting and financial information.

Its first goal is to act as a protection of the organisation, and not as an anticipation mechanism like the risk management framework.

• The Interactions between Risk Management & Internal Control

The risk management function:

- Reveals the unacceptable risks that must be reduced through appropriate control measures that are part of or should be part of the internal control function,
- Includes "control points" to verify that the measures are in place.

The internal control function:

- Keeps under acceptable levels the risks revealed by the risk mapping process,
- Includes "control points" to validate the control measures.

2) Risk Management: organisational practices & maturity

To provide the CFO as accurate a picture as possible of the current state of affairs in matters of risk management in the different organisations, we compiled several recent surveys and studies on risk management. This compilation provides a vision of the current level of maturity of RM practices in organisations in France, in Europe, and in the World.

The results of the practices found in the literature are presented here below in alignment with the themes of the AMF framework introduced here above, i.e. RM objectives, Frame, RM process, and Monitoring & Review.

• The Objectives of Risk Management

Close to twenty different objectives are mentioned in the literature reviewed which illustrates the heterogeneity of the expectations with regard to risk management activities. However, five of them are quoted most often:

- Identify emerging risks
- Reduce operational losses
- Contain results volatility
- Reinforce the business plan hypothesis / strengthen the strategic process / align risk appetite and strategy;
- Improve the organisation's resources / allow managers to make better decisions.

However, the major conclusion that stems from these studies is that the main driver for implementing risk-management in an organisation remains compliance, followed by reaching the organisational objectives within the defined risk appetite.

The experience of the members of the group is that the objectives assigned depend on the responsibilities of the person detailing them (top management, operational managers, stockholders, etc.). When it comes to top management, their expectations are to understand and control critical risks, legal and regulatory compliance, and identify risks linked to future investments.

• The Risk Management Frame

Most of the literature stresses the need to clearly define the process for which risk management can be efficient: i.e. assigning specific responsibilities, sharing a common vocabulary, and communicating RM objectives. These elements are included in the formal document defining the Risk Management policy. Conversely the main hindrances for a successful RM are the complexity of the system and its implementation and resistance to change. When RM is accompanied by a heavy bureaucracy it may be conceived as an additional layer of compliance.

Risk Management activities are usually split between the finance department, top management, audit, and internal control, and the risk manager generally reports to one of these entities.

Studies show that the risk manager's coordination and relations with the other "risk owners" are improving. There is increasing evidence of a better partial and even sometimes complete, integration of the different components, where some act as true partners, and not as competitors.

Few studies report on Risk Management documentation, especially on the definition of risk tolerance or risk appetite. However, it seems that this will be a major and delicate issue in the near future as more and more regulations insist on governance bodies defining "tolerable risk levels".

Many organisations declare that they use the AMF approach, but some refer to the COSO 2 frame.

As far as the group members are concerned:

- Their Finance department and audit are heavily involved in the RM activities,
- The absence of a strong sponsoring by top management and the lack of appropriate resources (human and financial) are the main hindrance to the development of risk management throughout the organisation.

• The Risk Management Process

Risk Identification and Analysis

Several risk identification tools are mentioned: interview, workshops with top management, internal audit missions, and monitoring indicators are key tools in the identification step.

Risk analysis consists of the examination of the different possible causes and the probability of occurrence of a risk, and the potential impact (financial, human, legal, and reputational) if an event occurs, and the level of control the organisation has over risk occurrence. Thus management will be in a position to decide whether the residual risk is at a level acceptable for the organisation.

Risk analysis provides a qualitative evaluation of risks and of their controls. Setting up prioritization workshops has become the benchmark in Europe.

Some listed companies are torn between the obligation of risk transparency towards their stockholders, and the need to protect confidential information and as a result do not divulge estimates on their risks.

Risk Treatments for major risks

The surveys list only the traditional risk reduction methods used by the organisations like internal control processes or contractual transfer for risk reduction, or risk financing. It seems also that externalization that was once hot for risky activities has become less fashionable. This has created a move towards re-internalization to take over the control of activities once subcontracted, resulting in a lower cost of risk. There seems to be a growing trend toward limiting the level of risk that operational managers are allowed to take so that they align with the decisions made by the governance bodies and top management.

- ## The Risk Management Monitoring and Review

Risk Mapping and its regular updating has become the monitoring tool of reference in Europe. In France most of CAC 40 companies and SBF 120 [organisations state that they use this tool. As far as midsize companies are concerned, only 50% of them use it. The surveys do not mention the frequency of updating, and other monitoring tools are mentioned, but their efficiency or effectiveness is not clearly defined:

- **Key Indicators**: They ensure a follow-up on some risks, or the performance of risk reduction measures;
- **Follow-up on action plans**: They include a time table to follow the implementation of measures and activities which ensure that risks are controlled internally;
- **Risks and operational controls self-evaluation**: These assure that control measures are properly implemented and efficient, and help in detecting emerging risks;
- **Incident registration for specific processes**: It allows the identification of areas where risks are not enough under control, and also to follow the development of disputes bringing feedback experience and providing alleys to correct the measures that would prove inappropriate.

As far as group members are concerned, their experiences are aligned with the findings of the surveys. However, dysfunctions and risks are not identified at the process level or through a mapping of process risks. They are identified thought listed scenarios that allow assessing the level of risk taking.

3) Risk Management: implementation steps

In the following pages, we aim at bringing elements needed for rules regarding risk management that will be prescribed or reinforced not only be aligned with compliance but also allow the CFO to contribute to his/her organisation's transformation, to participate in optimization efforts, and thus to transform a constraint into an opportunity.

The path to ERM evolution and transformation is split into six steps that will be explained next.

- ## Risk Management: The six steps for evolution and transformation

No organisation could expect to go from no risk management at all to a fully mature RM development in a very brief period. Each organisation is unique in its levels of maturity, and the steps proposed here after will allow each to find its own path of evolution. The trajectory proposes a path to maturity in six steps.

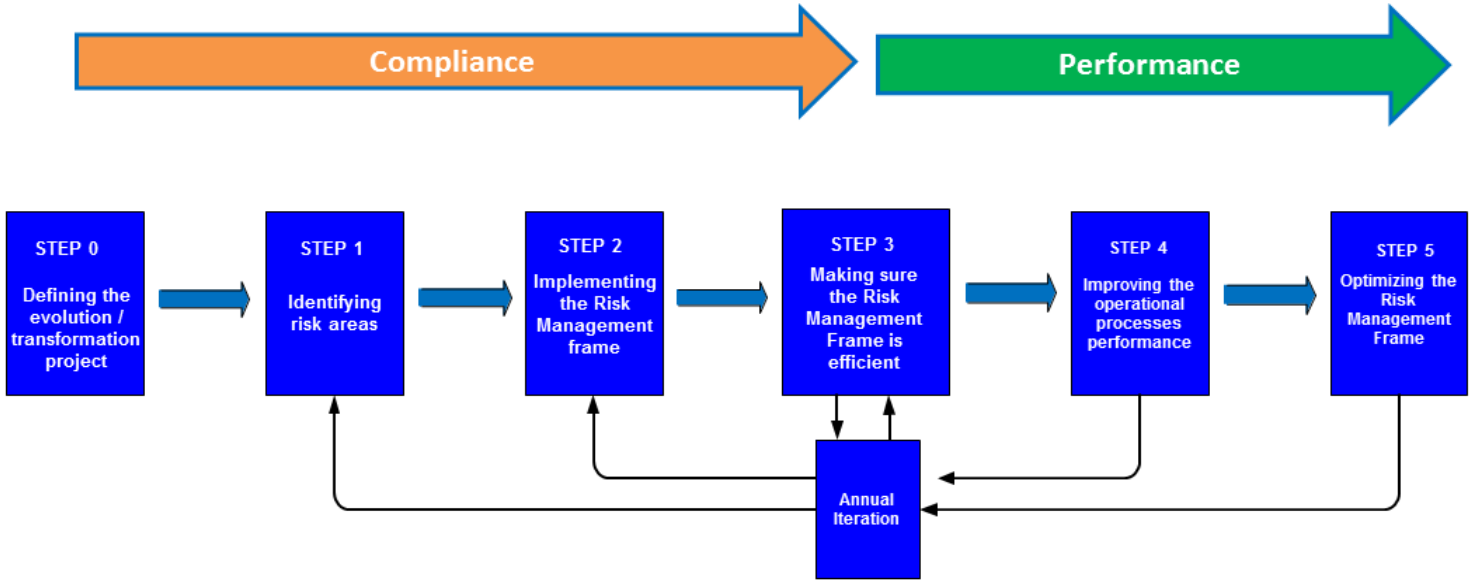
We believe the ultimate goal of the implementation of risk management is to help optimize the organisation's performance, with compliance with the proposed AMF RM framework reached as early as step 3. The six steps sequence is illustrated in table 2. The feedback loop is materialized to stress the importance of the iteration of the steps (we recommend an annual revision) so that the process of continual improvement is

made clear to staff. We have labelled "0" the preparatory step that is absolutely essential. At this step, the evolution and/or transformation scope is defined, as well as the definition of priorities and hedging. These decisions may result in the temporary or permanent exclusion from the scope of the Risk Management project of some activities, some territories, and some Business Units.

The members of the drafting team have often observed that here, as in other areas, there can be the lack of proper preparation, adequate communication, and evaluation of the resources required to be deployed to properly address the top management priorities. These weaknesses can lead to:

- **Consider RM only as an additional compliance issue**: This leads to losing the potential dynamic created by the RM process that could develop a continuous improvement logic and a transformation process; or
- **Initiate a transformation process doomed to fail**: This results in failure because the operational managers involved in the process have not been properly coached to understand and perform the modelling of processes and the productivity gains that they could obtain thus.

The path that leads to compliance and on to performance consists in the six following steps.



Step 0: Defining the evolution/transformation project

- Define with precision top management expectations – risk management objectives – with a clear distinction of what pertains to compliance and what pertains to performance because stakes, resources and benefits are different;
- Identify and spot the sponsor;
- Define the operational and functional areas to be included in the risk management project scope, these are specific for each organisation;
- Adapt the content of each of the implementation steps to fulfil expectations;
- Assess the resources needed for the risk management project.

Step 1: Identifying risk areas

- List the operational activities that generate major dysfunctions and could induce risks;
- Identify and rank the main risk areas that might jeopardize the organisation's objectives;

- Sketch the architecture of the risk management framework (position the various components of the framework).

Step 2: Implementing the Risk Management system

- Deepen the understanding of the operational activities included in the project through refining the modelling of the processes;
- Identify the processes that will be considered to be critical;
- Develop and implement the Risk Management plan;
- Formalize the content of the Risk Management system within the organisational frame: functions, human, technical, and financial resources, the progression of the risk management system to guarantee the sustainability of the functioning organisation.

Step 3: Making sure the Risk Management Frame is efficient

- Verify the risk areas are known and the control measures organized;
- Execute the self-evaluation and consolidate the results;
- Assess the implementation maturity and whether action plans are relevant;
- Establish and implement revised action plans (on the basis of the results of the self evaluation).

Step 4: Improving the operational processes performance

- Develop a reference table for operational and support processes;
- Define and update improvement objectives for the execution of the processes;
- Optimize the processes functioning and improve the efficiency and effectiveness of all those within the project scope;
- Implement the performance indicators defined for the processes:
- Reassess periodically the performances of the activities of the processes, and the level or risk exposure.

Step 5: Optimizing the Risk Management Frame

- Simplify the processes that are mature and mastered in order to improve their efficiency;
- Master risk taking while optimizing technical, human, and financial resources;
- Integrate risk management efforts to all projects in the organisation.

• The steps of the virtuous circle: evolution and transformation

The evolution dynamic the steps of which are described in the following pages constitutes and engine for continuous progress. This dynamic is an essential element in the constant adaptation of the organisation's practices to adapt to the market context evolution.

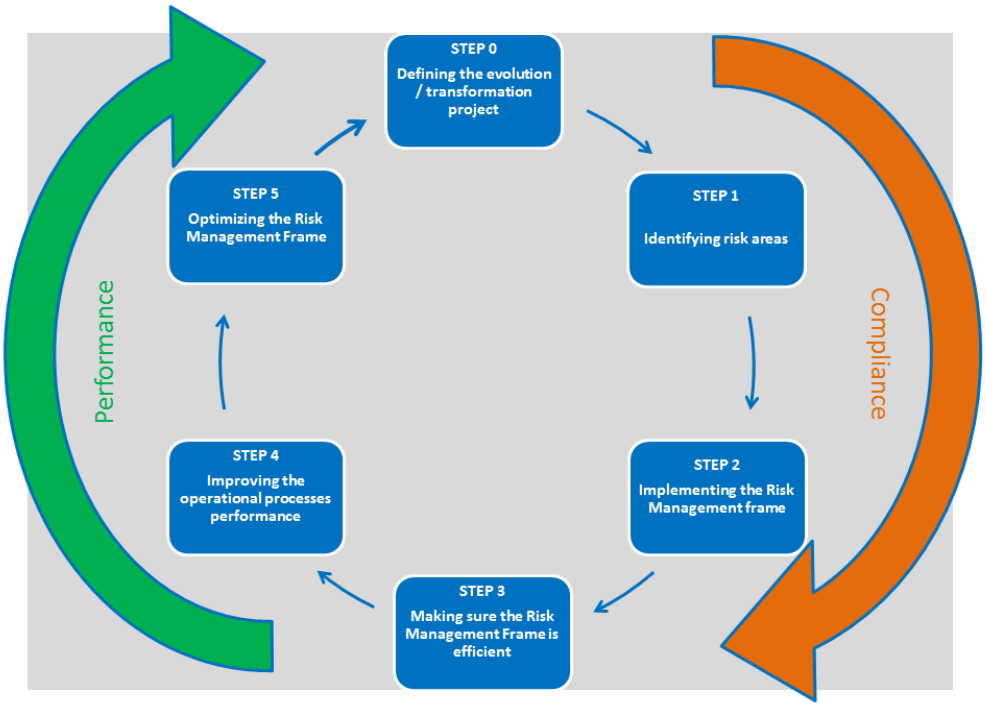
To illustrate this situation, we have deemed necessary to introduce the concept of "*virtuous circle"* as represented in the exhibit 3.

This *"virtuous circle"* corresponds to changes in behaviour and operational practices as the different steps are implemented which produces a new or revised culture. This culture is based on a shared knowledge of the operational and functional processes of the organisation.

Our understanding is that this "*virtuous circle*" creates a perpetual movement in which the organisation is involved that constitutes a consistent factor of progress for the improvement of the performance of its processes. The content and the extension of this "virtuous circle" will be modified year after year to the take into account the evolution of the context of the organisation *(economical, activities, difficulties, organic frontier, and markets that can be outside of the organisation's control)*.

All staff within the organisation must share the dynamic that is embodied in the *"virtuous circle"* as far as performance and value creation as it allows, as soon as the project is implemented, to transcend the mere compliance. This approach imprints in *all actors'* minds the notion of an opportunity to conduct change and performance enhancement. *All the actors* include the teams of the operational side as well as the support side of the organisation.

Of course, each organisation will tailor the steps of the *"virtuous circle"* to its specific needs and capacity. The resources needed are different and the means are aligned to the orientations, objectives to be met, and ambition defined by top management. When the organisation acquires a new structure or develops new activities, it needs to integrate the *"virtuous circle"* and propagate this new dynamic that aims at developing a synergetic culture combining a process approach and a risk management.



Scope of the steps of evolution-transformation

It is quite essential that time and thought is spent on defining the scope of the project, which entities, activities, subsidiaries, BU, will be included in the project. The point is to clearly identify what is *significant* for the organisation, and the rules that lead to the identification must be formalized. The scope must be revised at least annually to take into account the evolution of the internal and external context (organic, markets, execution).

The rationalization and the formalization of the RM project scope are essential, especially during the compliance phase. Economic reality must remain at the heart of the process, and the organisation must be particularly watchful so that geographically far away subsidiaries, or out of the core of business activities, are included within the RM scope.

• The shared knowledge of the process progress

To identify the risk areas and organize risk taking, it is essential to formalize the knowledge of processes, of activities, and context information regarding the organisation's and group's entities.

This formalized knowledge is useful at several levels:

- It creates a shared knowledge and a common language between the operational and the functional teams, including the financial department;
- It allows to keep the hand on objectives and priorities defined by the sponsors to avoid entering a level of superfluous details that would require to high a level of resources;
- It aims at organisational efficiency and effectiveness;
- It introduces in each entity the process culture, a structuring approach for the entity, which can then be used to tackle other issues as explained here below.

As the need to tackle performance begins to take shape within an organisation, it is important to gain a more and more precise knowledge of the activities and their operational and support processes. This understanding is translated into a description that is more and more precise as time passes by. The modelling levels are described here below.

The levels of activities modelling

The level of activities modelling needed to develop the program of evolution-transformation pursued in this project is structured in three levels:

- **Global level**: This level is needed to identify the risk areas. The detail level must be limited to fit on an A3 page. Such a space can show for up to forty processes which should be enough to formalize the progress of the main activities and the information flows needed for their development. With this basic knowledge, the identification of key risk areas is possible. Depending on the size of the organisation, this level may cover the entire organisation, or only a business unit or department.
- **Refined level**: This level is needed to build the risk taking frame and identify the processes that could trigger them. Each of the entity or BU (business unit) that constitutes an organisation must identify its processes. The same is needed at the global level too; the A3 sheet limitation for each BU or entity seems a reasonable level of detail (granularity).
- **Detailed level**: This level is needed to initiate the performance improvement process in order to enrich the model. The level of detail needed will depend on the activities and specificity of the organisation. At this level, activities and management rules accomplished within a process are described to allow for the necessary modifications of practices and the overall organisation's performance.

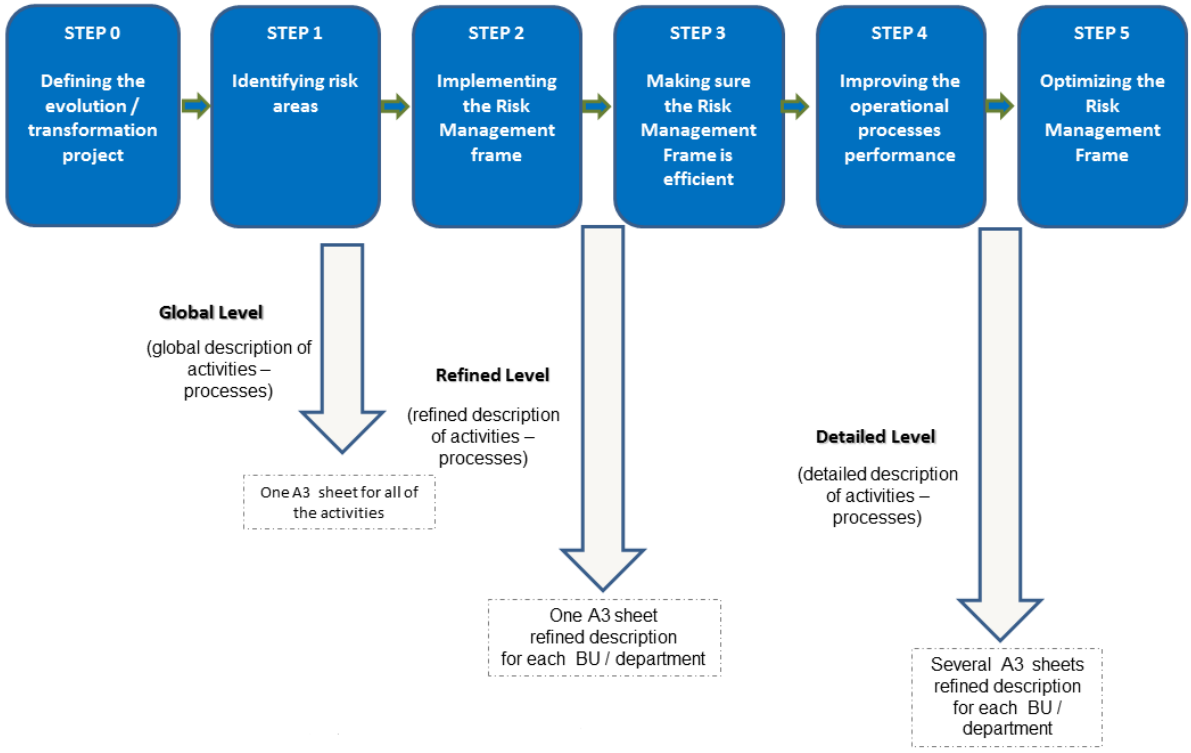
These general principles must be tailored to the organisational stakeholders. Thus, even within a given organisation, the levels of details depend on the entity or the BU specificity. Therefore, within a given entity, the level of modelling may differ from global *(organisation level)*, to refined *(BU level)*, to detailed *(activity level).*

This understanding of the processes and activities, and of the management rules associated, is documented through a graphic representation (a model of the processes) whose formulation is specific to each organisation.

There are stumbling blocks. The level of granularity of the description must be defined with care. In most cases, organisations tend to adopt a level of details for the processes far beyond what is needed to reach the expected results. This situation will tend to slow down the expected dynamics.

This exhibit illustrates at which of the six steps in the trajectory the description will have to be developed. This modelling in three levels offers these benefits:

- Improved focus on essential stakes and critical processes;
- Progressive effort aligned with priorities and top management choices;
- Approach aiming both at compliance objectives, and identifying the performance drivers.



- **The benefits expected at each step**

Once the content of each step has been defined, it seemed necessary to offer markers that are key points in the evolution process and allow measuring the level reached.

These marks have been split into six categories:

- Expected benefits,
- Difficulties/stumbling blocks,
- Key success drivers,
- Time needed,
- Required resources,
- Return on Investment (ROI)

For each step, the markers have been identified. These markers allow putting in perspective the objectives of the step. These key markers allow anticipating difficulties, to find the optimal conditions of success for the step and to develop guidelines to communicate with the operational managers and other interested parties.

This exhibit offers a detailed presentation of the different markers themes. The last line sums up the ROI for each step.

The table sums up the experiences and exchanges within the drafting team. It provides the marks in all six categories for each of the six steps described earlier. Although it is not exhaustive, it provides a sound vision on how to manage change in order to successfully cross each step.

STEP 0 **PROJECT SCOPE**	**Expected Benefits** - Formalization of what we want to undertake - Delimitation of the scope of works	**STEP 1** **RISK AREAS IDENTIFICATION**	**Expected Benefits** - Global rolling of the activities - Spotting & prioritzing of risks	**STEP 2** **Implementing the Risk Management frame**	**Expected Benefits** - Risk Management scheme elements architecture -Risk Control measures	**STEP 3** **Making sure the Risk Management Frame is effective**	**Expected Benefits** - Evaluation of the effectiveness of the RM Scheme -development of inidicators /monitoring KPI	**STEP 4** **Improving the operational processes performance**	**Expected Benefits** - Reduction ofs processes dysfunctions - Improvement of value created by the processes - Diminution du niveau des risques	**STEP 5** **Optimizing the Risk Management Frame**	**Expected Benefits** - RM Scheme simplification - Additional improvement of the processes performance
	Challenges - Appointment of the sponsors of works		**Challenges** - Introduction of a process culture -Definintion of the granularity of activities description via processes		**Challenges** - Obtention of a real vision of the existing protection via sel-evaluation questionnaires - Action plans relevance for RM scheme implementation		**Challenges** - Understanding the RM scheme costs (braod approach) - Decisions to be made on the existing scheme to transform and optimize it - Intégration of the proces approach for all actors		**Challenges** -Identification of relevant corrective actions - Definition of a performance referential as a basis for performance measure - Too detailed description of concerned processes		**Challenges** -Assessment of the accpetable level of risk to be maintained - Definition of new performance indicators
	Key Success Factors - Establishment of scope relevant work		**Key Success Factors** - Clear sponsor decision - Sensibilization of all actors to the process approach - Definition of "critical activities" scope - Motivation of some actors' team		**Key Success Factors** - Operational staff involvement in the project - Close monitoring of teams		**Key Success Factors** - Adequate deployment of the elements of the RM scheme - Clear will of risk management (linked to the change of sponsor) - Good assimilation of process culture		**Key Success Factors** - Involvement & mobilisétion of operational staff -Clear definition of progress plans with unambiguous operational support		**Key Success Factors** -Top management (executive team - Integration of risk culture in all of the organzation's projects
	Time needed **		**Time needed** ****		**Time needed** ***		**Time needed** ****		**Time needed** ***		**Time needed** ***
	Required resources - the Finance Department, the direction of the audit and risk management		**Required resources** - BU / Départements managers		**Required resources** - BU / Départements managers		**Required resources** BU / Départements managers & operational		**Required resources** - BU / Départements managers & operational		**Required resources** BU / Départements managers & operational
ROI											

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STEP 0 **PROJECT SCOPE**	**Expected Benefits** - Formalization of what we want to undertake - Delimitation of the scope of works **Challenges** - Appointment of the sponsors of works **Key Success Factors** - Establishment of scope relevant work **Time needed** ** **Required resources** - the Finance Department, the direction of the audit and risk management	**STEP 1** **RISK AREAS IDENTIFICATION**	**Expected Benefits** - Global rolling of the activities - Spotting & prioritzing of risks **Challenges** - Introduction of a process culture -Definintion of the granularity of activities description via processes **Key Success Factors** - Clear sponsor decision - Sensibilization of all actors to the process approach - Definition of "critical activities" scope - Motivation of some actors' team **Time needed** **** **Required resources** - BU / Départements managers	**STEP 2** **Implementing the Risk Management frame**	**Expected Benefits** - Risk Management scheme elements architecture -Risk Control measures **Challenges** - Obtention of a real vision of the existing protection via sel-evaluation questionnaires - Action plans relevance for RM scheme implementation **Key Success Factors** - Operational staff involvement in the project - Close monitoring of teams **Time needed** *** **Required resources** - BU / Départements managers	**STEP 3** **Making sure the Risk Management Frame is effective**	**Expected Benefits** - Evaluation of the effectiveness of the RM Scheme -development of inidicators /monitoring KPI **Challenges** - Understanding the RM scheme costs (braod approach) - Decisions to be made on the existing scheme to transform and optimize it - Intégration of the proces approach for all actors **Key Success Factors** - Adequate deployment of the elements of the RM scheme - Clear will of risk management (linked to the change of sponsor) - Good assimilation of process culture **Time needed** **** **Required resources** BU / Départements managers & operational	**STEP 4** **Improving the operational processes performance**	**Expected Benefits** - Reduction ofs processes dysfunctions - Improvement of value created by the processes - Diminution du niveau des risques **Challenges** -Identification of relevant corrective actions - Definition of a performance referential as a basis for performance measure - Too detailed description of concerned processes **Key Success Factors** - Involvement & mobilisétion of operational staff -Clear definition of progress plans with unambiguous operational support **Time needed** *** **Required resources** - BU / Départements managers & operational	**STEP 5** **Optimizing the Risk Management Frame**	**Expected Benefits** - RM Scheme simplification - Additional improvement of the processes performance **Challenges** -Assessment of the accpetable level of risk to be maintained - Definition of new performance indicators **Key Success Factors** -Top management (executive team - Integration of risk culture in all of the organzation's projects **Time needed** *** **Required resources** BU / Départements managers & operational
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- **The comparison: steps content versus AMF framework**

The six steps of the path to RM maturity just described lead from compliance to performance. The content of this evolution is detailed in the technical data sheets that constitute part 2 of this document with the tasks to be performed at each step. These data sheets constitute an implementation guide for the risk management dimension included in the AMF framework version published in July 2010.

Exhibit 6 presents in a matrix format the content of each of the steps 1 to 5 and the four component of the AMF Framework thus allowing mapping their alignment. Under the matrix, some comments are added. Step 0 has been omitted as it is really a preparatory step to organize the projects, and not really a technical step.

It should be noted that efficiency for a risk management frame is reached when steps 1, 2, and 3 have been successfully implemented (see orange cells in Exhibit 6).

While step 1 is crucial, it is too often not at all or not sufficiently formalized. Step 1 aims at identifying the risk areas. Therefore, this preparatory step is key to a successful implementation of RM. We have already stressed that the scope of the RM frame, the activities, BU or department included in the project are the key to defining the level of resources needed for success. An annual revision of the elements included within the scope of the project is necessary to maintain its relevance taken into account the evolution of the internal and external context of the organisation.

		STEP 1 Identifying risk areas	STEP 2 Implementing the Risk Management frame	STEP 3 Making sure the Risk Management Frame is efficient	STEP 4 Improving the operational processes performance	STEP 5 Optimizing the Risk Management Frame
Organizational frame						
RM Frame Objectives						
Process	Identification					
	Analysis					
	Treatment					
Monitoring						
Legend		*N/A*	*Preparation/Iteration*	*Effectiveness*	*Preparation/Improvement*	*Efficience*
Organizational scope		Limited	Limited	**Total**	Limited	**Total**

The performance of the RM system (see green cells in Exhibit 6) will be optimised only upon completion of steps 4 & 5.

Step 4 is particularly important when the goal is to improve the performance on the basis of an in depth understanding of the activities, the major processes of the organisation and how robust they are when executed.

Once this level of maturity has been reached, it is then possible to initiate a performance continuous improvement process. The RM frame will be reinforced or simplified on the basis of the process of performance improvement involved with step 4.

Thus, it is clear that the steps proposed here constitute a guide to implement the Risk Management extension of the AMF Framework as published in 2010.

4) The Key Drivers of success for the implementation

We have identified four key drivers for the implementation:

- Identification of the risk areas, and critical activities generating risks;
- Developing a process approach, the benefits of which are shared by all;
- Creating value (measurable) at the end of each step;
- Establishing a communication policy.

• Identification of the risk areas

Whether during the compliance phase, or within the performance phase, it is essential to initiate the process by identifying the most critical processes in term of their impact on the implementation of the organisation's strategy and the major risk areas. Step 1 and 2 are essential in the creation of this link.

• Developing a process approach

The introduction of a process approach culture and its integration into the operational practices is essential as it allows to work differently and to have a control lever for continuous improvement in the execution of the activities involved in the processes. As mentioned earlier, this culture will prove helpful in improving other topics, and other areas in the organisation.

• Creating value (measurable) at the end of each step

The steps proposed in the path to full maturity allow measuring the value created at each step and this becomes the dynamic engine for the evolution.

In fact, the implementation of the RM frame rests on the efforts of the middle and top management of the organisation. As long as Risk Management is considered as a mere compliance, the operational personnel will not be inclined to spend time and efforts on

interviews and workshops, unless they can envision that this will lead to improvement in the operational management which is their daily responsibility.

This is why the leader of this project must set a goal and measure the value created at each step.

- ## Establishing a communication policy

A strong communication policy is essential to the success of the RM project. These communication actions must inscribe in the DNA of all actors involved that the risk culture and the process culture are intertwined and both needed for the path to success. These actions will contribute to the creation of the culture needed, where all actors will understand the importance of taking controlled risks, use a common language, the same scales to measure frequency and severity, and the same perception of the risk limits that should not be crossed or exceed.

- ## Conclusion of part 1

The objective of this part was to demonstrate that reaching compliance in terms of risk management is not enough, it is only a point of passage towards improvement in the operational execution and the robustness of the economic model of the organisation. This project requires strong preparation and appropriate communication so that operational staff see the benefits to themselves and contribute willingly to its success and to the continuous progress dynamics. From an economical perspective, the project is an investment the ROI of which is between 6 and 16 months depending on the complexity of the situation.

Once the content of the maturity path has been established, Part 2 will be devoted to the tasks to be undertaken to finalize the various steps. Technical data sheets are used to present a description of all these tasks.

The toolbox developed by the group members to assists others in implementing the RM project has to be tailored for each organisation and each situation.

II Incorporating Risk Management in the Performance Improvement process: steps and tool sets

1) Definitions

• Compliance

In legal terms, compliance can be defined as: "a set of actions aiming at setting standards such as the behaviour of top management, and staff within private or public organisations (not for profit, associations, companies, trade unions, etc.), as well as making sure activities with outsiders are aligned with the outside or inside norms that are applicable in the context in which they operate."

In the world of Finance, compliance is used in reference to the alignment with legal and regulatory measures specific to the activities, the adherence to professional and deontological norms, and the implementation of the orientations provided by the governance bodies and the instructions of top management.

It constitutes one of the objectives of the AMF Internal Control Framework as stated: "The framework aims most specifically at legal and regulatory compliance…"

• Effectiveness

Effectiveness is the capacity to reach a goal or objective. To be effective is to achieve the expected results and reach the objectives, in terms of quality, speed, and costs. Effectiveness is a measure of results and reaching the objectives. In other words, it is how robust is the execution that makes processes effective. No major dysfunction happens during the execution that reaches a level stable enough to call it "effective". Effectiveness must not be confused with efficiency.

• Efficiency

Efficiency measures the level of resources consumed to reach the objectives. Pursuing efficiency can be undertaken only when effectiveness has already been attained.
To be efficient means to make the best use of all resources (human, technical, informational, and financial). In other words, it is to use good practices to optimize the use of resources. Efficiency represents the achievement of goals and objectives with optimized resources at all times. Therefore, efficiency must not be confused with effectiveness.

- **Performance**

In the world of management, performance is the ultimate result of all the efforts developed in an organisation. These efforts are developed to do the right things, in the right manner, at the right time, for the lowest cost, to produce good results to fulfil the needs and expectations of customers or clients, and all interested parties, while reaching the organisation's objectives.

- **Duration**

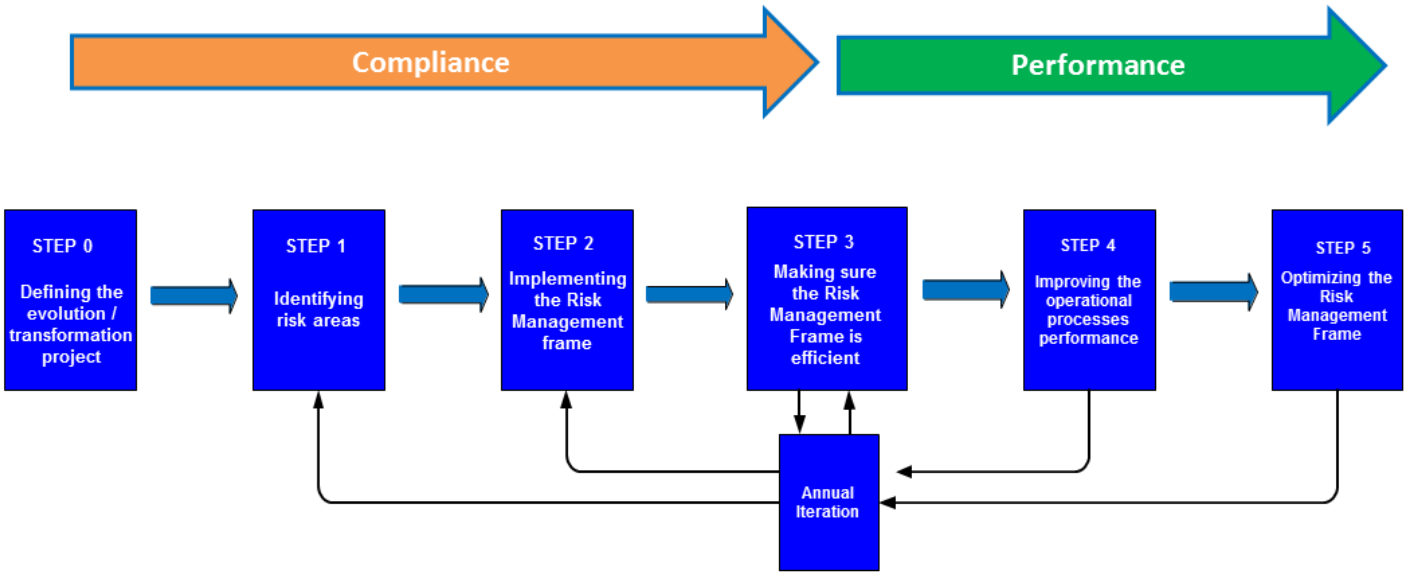
The duration (of a project) is the time horizon the organisation has set to itself to reach an objective, or successfully complete the project.

2) The steps in the evolution and transformation

As mentioned earlier the path to compliance and performance is split into six steps.

- Step 0: Defining the evolution/transformation project
- Step 1: Identifying risk areas
- Step 2: Implementing the Risk Management frame
- Step 3: Making sure the Risk Management Frame is efficient
- Step 4: Improving the operational processes performance
- Step 5: Optimizing the Risk Management Frame

In this white paper, aiming at assisting mostly top management in Small and Medium size organisations, we assume that the risk management efforts will be deployed under the responsibility of the Finance department (CFO). The involvement and the efforts of the operational managers will have to increase as the path progresses through the different steps.



Depending on the organisation's risk culture, top management roadmap, and governance needs, the iteration can be biannual, annual, or biennial. The implementation and deployment of the RM path steps may take more or less time depending on the scope of the activities included. As stated earlier, following the AMF suggestion, the organisation should start the project with a scope limited to risk areas, critical activities, and risky entities prior to extending the RM system to the entire organisation.

The description of the different steps, and the technical data sheets attached, will provide potential users with a roadmap, and practical method rooted in experience to develop pragmatically and effectively the risk management scheme in their own organisation. Then, they will be able to embark in the performance improvement efforts using the logic of continuous progress.

• Step 0: Defining the evolution/transformation project

Objectives

- Define with precision top management expectations – risk management objectives – with a clear distinction of what is pertaining to compliance and what is pertaining to performance as stakes, resources and benefits are different;
- Identify and localize the sponsor;
- Define the operational and functional areas to be included in the project scope, these are specific for each organisation;
- Adapt the content of each of the implementation steps to fulfil expectations;
- Assess the resources needed for the project.

The project must be framed with top management and the sponsor(s) as it is essential that the project be prioritized within the portfolio of project in the organisation and also set the expectations, contribution, and scope of the RM system.

Deliverable

The deliverable includes the following elements:

- The economic impact of this evolution/transformation: in practice the main managerial accounting indexes like turnover, gross margin, etc. for each product line, market, and country, that will be detailed in Step 1;
- The expectations and contributions for top and operational management that will become the objectives to be reached;
- The milestones for the evolution and the agenda for the implementation of the risk management system;
- The positioning of this project vis-à-vis the other change projects to avoid doing the same task twice and to improve the coordination in secondary issues involved in the portfolio of projects;
- The sponsor's missions especially concerning the necessary choices.

• Step 1: Identifying risk areas

Objectives

- List the operational activities that generate major dysfunctions and could induce risks;
- Identify and rank the main risk areas that might jeopardize the organisation's objectives;
- Sketch the architecture of the risk management framework (position the various components of the framework).

This is a preparatory work to be conducted with all the managers involved in the project, operational as well as support functions. Those to involve in the loop differ from organisation to organisation. It is necessary to acquire a kind of *"intimacy"* with the organisation, through the understanding of its internal and external context (markets, products, production – internal and subcontracted –, and supervision mode. This *"intimacy"* must be formalized so that it can be shared with all those involved and help to solve differences should they occur in the development of the process.

This step should be used to:

- Identify and localize the processes that generate the major risk areas and could jeopardize the organisation's objectives. This is why all the activities must be reviewed in a top-down approach. This review will allow localizing the stakes, and deciding on the granularity level of the project, hence the level of effort to be deployed.
- Identify the critical points to be treated, the constraints linked with the situations, and the different expectations of the operational so that the main aspects of the RM system architecture can be sketched. The architecture will be completed and finalized in step 2: *Implementing the Risk Management System*.

Deliverable

The deliverable includes the following Chapters:

- **Chapter 1**: Introduction of the vectors product/market, and the development axis of each of the entities involved in the project;
- **Chapter 2**: Introduction of the financial stakes resulting from the specificities of the activities and the economic model;
- **Chapter 3**: The global mapping of activities and risk areas, positioning the major dysfunctions identified in the process. It is a global view, *like that from a helicopter*, of the activities split as is required in each specific situation/entity. For middle size entities, the mapping must fit on an A3 page.
- **Chapter 4**: A summary of the existing devices, and a sketch of what to put in place.

• Step 2: Implementing the Risk Management frame

Objectives

- Deepen the understanding of the operational activities included in the project through refining the modelling of the processes;
- Identify the processes that will be considered as critical;
- Develop and implement the Risk Management plan;
- Formalize the content of the Risk Management system within the organisational frame: functioning, human, technical, and financial resources, the progression of the risk management scheme to guarantee the sustainability of the functioning.

During this step the main issues to be tackled are:

- Develop the first risk mapping on the basis of a refined understanding of the activities in the entities. This extended knowledge rests on the execution processes identified during step 1;
- Localize the critical processes to size the resources to engage and the risk management guidelines to develop;
- Develop and implement a plan to deploy the risk management system so that is in place and functioning according to the plan at the end of this step;
- Define and document:
  - ✓ The risk management system, and especially its functioning mode, the processes to be watched, and the architecture of its components;
  - ✓ The organisational frame on which this system will be grafted;
  - ✓ The human and technical resources that will be needed for the sustainability of the system.

Deliverable

The deliverable includes the following Chapters:

- **Chapter 1**: The major risks identified in the risk mapping process (including the treatment tools and curbing actions, as may be the case);
- **Chapter 2**: The critical processes as identified in process/risks matrix, and existing product;
- **Chapter 3**: The description of the target frame to protect the critical processes (including the architecture of the components) – it goes far beyond the sole organisation which is only one component of the system;
- **Chapter 4**: An initial draft of the risk management policy. Treating the risk deemed "unacceptable" by top management will constitute the first risk management policy. Treatment plans are developed to reduce/transfer/suppress those risks.

• Step 3: Making sure the Risk Management Frame is efficient

Objectives

- ➢ Verify the risk areas are known and the control measures organized;
- ➢ Execute the self-evaluation and consolidate the results;
- ➢ Assess the implementation maturity and whether action plans are relevant;
- ➢ Establish and implement revised action plans (on the basis of the results of the self-evaluation).

During this step, one must mostly seek to:

- Verify that the risk management system implemented during Step 2 complies with current recommendations and the expectations of the standard selected;
- Assess the effectiveness of the system implemented: the evaluation must look into the precision of the RM objectives and to what degree it is aligned with its objectives, the understanding by the operational staff of what risks are deemed acceptable by top management, the degree of containment of the critical risks, identification of risk areas, analysis and feedback from risk occurrences, reporting allowing the risk and/or audit committee to practice diligences, and top management to make appropriate decisions;
- Define the component for "monitoring the risk management framework": the monitoring the operational implementation will allow to ensure the appropriate evolution of the system implemented during step 2. This will facilitate measuring the level of teams'

maturity and suggest the sponsor to progress from a strict compliance objective to a performance objective.

Deliverable

The deliverable includes the following Chapters:

- **Chapter 1**: The result of self-evaluation efforts: they will serve as a source for the risk-mapping update ;
- **Chapter 2**: The assessment of the effectiveness of the RM process by process *(analyze the position of the current process and the results it produces as compared primarily with the assigned results, and secondarily with the chosen standard requirements)*;
- **Chapter 3**: Progress Action Plan associated: which applies to each of the activities, and each of the process within the scope, identical as in the preceding document.

• Step 4: Improving the operational processes performance

Objectives

- Develop a reference table for operational and support processes;
- Define and update improvement objectives for the execution of the processes;
- Optimize the processes functioning and improve the efficiency and effectiveness of all those within the project scope;
- Implement the performance indicators defined for the processes:
- Reassess periodically the performances of the activities of the processes, and the level or risk exposure.

This step is the tipping point from a compliance exercise the aim of which is to fulfill the regulatory obligations in matters of risk management, to the other side of the Risk Management effort aiming at transforming the organisation to enhance operational performance (risk taking, dysfunctions, effectiveness of the processes).

The start-up of the transformation plan is made possible, or accelerated, by the successful deployment of the first three steps in the risk acculturation, especially an in-depth and formalized understanding of the activities, and associated processes. Thus, the *"critical"* processes are identified, those that may generate the life threatening risks for the organisation. That approach has prepared the teams to use processes as a vehicle for transformation, and understanding of the transversal operation of the organisation.

During this step, one must mostly seek to:

- Generate a taxonomy referencing all the processes. The referencing is a translation of the in-depth understanding gained during the preceding steps. It is essential to uncover the activities, management rules, modus operandi that must be modified to treat the dysfunctions;
- Define the objectives for the improvement expected. These improvements may cover different areas like: reduce the deadlines for billing, and for collection, the amount of receivable, secure periodic accounting and financial information, systematic issue of an order form for any purchase;
- Limit dysfunctions;
- Identify processes and actions for which action plans must be designed to improve execution modalities for operational activities. It consists in reinforcing and perpetuate the system while improving the processes;
- Monitor periodically the improvements. The monitoring will require among others to define performance indexes to measure it at the process level. It is the use of adequate

KPI that will ensure that the effectiveness of the transformation is measured in comparison with a T0, reference value, and to follow the evolution with a periodicity that can be monthly or quarterly.

Deliverable

The deliverable includes the following Chapters:

- **Chapter 1**: The improvements objectives expected,
- **Chapter 2**: The referencing of all processes within the chosen scope,
- **Chapter 3**: The dysfunctions to be eliminated and corrective actions to be initiated,
- **Chapter 4**: Action plan(s) that must be developed and their implementation planning,
- **Chapter 5**: Follow-up plan to monitor the improvements, including the KPI for the processes within the scope of the project.

• Step 5: Optimizing the Risk Management Frame

Objectives

- Simplify the processes that are mature and mastered in order to improve their efficiency;
- Master risk taking while optimizing technical, human, and financial resources;
- Integrate risk management efforts to all projects in the organisation.

To reach the compliance stage in the RM process, the organisation functioned in the project mode and then was transformed into a permanent scheme with permanent resources. In the same time, and possibly consecutively, a series of tasks are undertaken to improve the execution of the processes and reduce the dysfunctions of some of the activities of the processes and enhance a reasoned risk taking.

During this step, one must mostly seek to:

- Spot the activities for which precaution mechanisms could be simplified;
- Allow the overall reduction effort to be reduced or redirected towards specific issues linked with the economic context. The risk management scheme, now effective, must be made more efficient, continuing risk areas analysis and dysfunctions, initiated during step 1 and continued in the following.

Deliverable

The deliverable includes the following Chapters:

- **Chapter 1**: Review the processes to verify if those classified as critical remain so;
- **Chapter 2**: Monitor the progress towards maturity of the RM scheme and action plans review. Analysis of the simplifications that could be implemented to the actions concerning the "non critical" processes;
- **Chapter 3**: Introduce the IT dimension in the process as an axis of progress. Identify double protection and trade impacts of the IT. Assessment of the level of control of the IT risks.

3) Risk Management Tool Sets

To implement the six steps transformation and evolution project as described here, the team has gathered a number tools split into five families covering:

- Knowledge of the businesses and the associated strategies,
- Knowledge of operational and support processes,
- knowledge of risks,
- Risk containment mechanisms/measures,
- Monitoring and review.

The five families reflect the main technical themes split on the five steps described here above and summed up in the exhibit 7 here below.

In the following pages, for each of the family a special focus will be devoted to:

- Their contributions,
- The challenges they present when implemented,
- The list of tools suggested,
- The tools utilization on an ongoing basis.

• Knowledge of the trades and the associated strategies

This understanding is an essential component of the tasks to be performed and will help to (i) understand market(s), product(s), activity(ies) which include research, production, subcontracting and procurement, distribution, but also will help to (ii) measure what is at stake in economical terms through a few key data found essentially in the operational and financial reporting, and finally it will assist in helping the organisation (iii) understand what is at stake at the human resources level, localization, evolution, etc.

- **Contributions**

  These tools allow identifying and taking into account what is at stake at the commercial, industrial and economical levels and hedging when developing and updating the existing schemes, and when introducing the Risk Management dimension. These tools ensure that the RM efforts are relevant and also provide special treatments concerning the processes that could generate specific and punctual risks with criticality levels high for the entity.

- **Challenges they present when implemented**

  Two main challenges can be confronted:

  - Information confidentiality: more specifically information concerning the strategy concerning the vectors product-markets that may need to have a limited circulation,
  - Selection of information: those qualified as "useful" are not easy to identify as there is a profusion of internal information concerning markets, products, execution performance

  The members of the drafting team have debated about these two challenges. They conclude that a lot of attention and time must be devoted to aggregate these data as they may not be readily available depending on the research scope *(However, the challenge brought by an insufficient knowledge of the structures should not be underestimated)*.

- **List of tools suggested**

  These tools are essentially used to collect *"useful"* information to position with relevancy and effectiveness the evolutions and transformations that will be decided and to avoid a monolithic treatment of the organic structures of an entity.

- Business Model: characteristics and stakes for each trade in the entity(ies) - Strategic Plans and 3 to 5 year business models for the entity(ies) - Mapping of all the organisation activities *(global vision obtained through a representation all the processes)*. This mapping can be developed at different levels – Entity, BU, Support function, Finance Department, etc. - Spotting risk areas and development of the first risk areas universe: trade/risk areas map.

• Knowledge of operational and support processes

TOP-DOWN understanding the way activities are carried out in the organisation is essential in order to design a RM scheme relevant and tailored to meet the objectives decided by top management, that is also specific to each organisation.

Processes and the associated flows of information are used to develop the knowledge. This schematic representation is not commonly used in management. However, it is generally used in the world of IT and quality.

The feedback from the members of the drafting team is that operational staff appreciates this representation as it provides them a global vision formalized as a map where they can spot their interactions and find the best way to secure the operations.

The reader should be well aware of the confusion that exists between several concepts: procedure, modus operandi, good practices.

Therefore, the introduction of another concept "process" is made difficult because of the confusion just mentioned that is found in practice. This adds complexity where the maximum simplicity is sought. Later on it will be possible to understand that, once introduced, the process approach will be put to good use in other issues.

- **Contributions**

  The introduction of the process approach offers multiple contributions and helps reaching several objectives:

  - Simplification of the apparent complexity as the dimensions IT and organisation are separated and not included in the process dimension,
  - The shared knowledge of activities executed through the processes and their interactions,
  - Creation and diffusion of a transversal vision that will allow the identification of silos practices or isolated of some of the actors,
  - Performance enhancement for the execution of all the activities that constitutes each of the processes,

- Development of a reference table for the processes,
- Sharing of the functioning of the processes within the teams,
- Possibility to work on the operational performance improvement, and the development simultaneously or after of performance indexes for the processes.

- **Multiple Uses**

The introduction and development of the process culture within the organisation facilitate the creation of a common vision shared by all the actors which is centred on the most stable element: the trade process.

As soon as they are identified and shared, the processes bring several contributions and can be put to multiple usages within the organisation, for different issues, more or less complex.

The *process approach* may lead to:

- Use 1: Understand how to synchronize physical and information flows within the entity,
- Use 2: Rationalize the process progress;
- Use 3: Plan rigorously the evolution of the organisation's information system to ensure it is aligned with the operational practices;
- Use 4: Revamp and improve the organisation's structure *(entities / management / departments / etc.);*
- Use 5: Develop a more relevant understanding of the organisation's costs *(managerial accounting i.e. ABC – activity based costs – or ABM – activity based management)*;
- Use 6: Secure financial information production and increase third parties trust and confidence in the account sincerity.
- Use 7: Develop and implement an optimal risk management scheme.

Beyond these seven uses listed above concerning the *"process approach"*, this culture may allow the organisation:

- To enter into a continuous progress logic
- To create the conditions for the sustainability of the evolution and transformation projects.

- **Challenges they present when implemented**

The introduction of the culture has to address four major challenges:

- Modelling: aims at representing only the processes and information flows used or generated. This representation is meant to be simple and therefore does not integrate information concerning the organisation, modus operandi, and procedures that would complicate the representation, though it would be closer to reality. The difficulty for the operational manager is to limit the modelling to the processes and their chain to reveal clearly the dynamism of the operational activities;
- Identification of activities: modelling allows finding the activities nested within the processes, and their characteristics. Note that dysfunctions on these activities are the root of operational risks and risks on support functions.
- Detail level of the description: the granularity of the description varies according to the trades involved, their riskiness, and the objectives set by top management. The choice of the detail level of the description is always delicate as the natural trend is to go to a level of more details that rally necessary.

- Confusion procedures, modus operandi, processes: the most common difficulty met during these projects.

- **List of tools suggested**

  The tools used by members of the drafting team are listed in the table below

- Mapping of all of the organisation's activities (global vision obtained through the representation of the processes). This mapping may be done at different levels in the organisation (Entity, BU, support function, etc.)
- Processes reference table: purchase, procurement, etc
- Processes reference table: Human Resources
- Process transformation – Editing of order forms
- Monitoring of process performance – KPI – customers process
- Monitoring of process performance – KPI – purchasing and procurement process

- **Tools utilization on an ongoing basis**

  The objective is to transfer the tools from project mode to an ongoing process that respects **three** rules:

  - *Process owners*: name a person responsible for the correct functioning of the process and the management of the team carrying out the activities constituting the process.
  - *Progress plans*: their development and monitoring are necessary to feed the dynamics, continuous improvement, and avoid quanta jumps that have a hazardous effectiveness. This progress plans are based on suggestions.
  - *Monitoring*: periodic review to provide rhythm to the progress plans.

• Knowledge of risks exposure

It is an issue for public companies using funding by financial markets as required by existing regulation to develop a risk management system. There exists a similar obligation for the companies whose stockholders include Investments funds, or which benefit from public funding.

Assessing the risks involved in a new activity or the development of an existing one has become a usual criterion in the making of the decision, without falling in the trap of the problem where risks are identified everywhere.

The drafting team did not embark in a complete review of all the existing literature on risk, but rather decided to integrate the risk exposure assessment in a global project and to propose a set of tools used regularly by individual members of the drafting team.

- **Contributions**

  Understanding risk exposure allows:

  - Understanding by the operational staff of risk taking linked with their activities, and also those generated by the markets on which the organisation operates. Some activities are identified as *critical* points that must be monitored specifically, and the object of action plans the rolling out of which must be periodically reviewed and realigned if need be.
  - A better allocation of monitoring efforts on all dimensions. The risk exposure criterion is the best to focus on where a maximum effort is needed.
  - Contribution to operational performance improvement: the understanding and evolution of risk criticality contributes to the operational performance. The results of the action plans developed and implemented witness of that to the operational staff.

- **Challenges they present when implemented**

  Risk mapping projects has become common for listed companies and those financed by investments funds and public money. Many books have been published on this subject with different perspectives, the major challenges are well known, they are listed here to reflect the drafting team members' experience.

  For the team members the difficulties most often encountered are:

  - A complex project: requires the mobilization of many operational actors that may not understand the goal or the use of risk-mapping. This lies half way between compliance and operational performance.
  - Confusion Dysfunctions/Risks: the generic market and financial risks are not the concern of the operational staff, they are more interested in their inherent risks and more specifically the dysfunctions they face every day.
  - Link risks and processes: the link exists at the macroscopic level that is not precise enough to establish the link with the processes that generate risks.
  - Risk assessment: this is an exercise that is rarely done as it is perceived as dangerous because the assessments produced may be diversely interpreted and open all sorts of discussions. In essence, any attempt at quantifying the impacts is a complex project with values that can be scattered depending on the parameters used. As a matter of tact the members of the drafting team remain undecided on the risk assessment issue.

- **List of tools suggested**

  The tools used by members of the drafting team are listed in the table below

- Mapping of all of the organisation's activities (global vision obtained through the representation of the processes). This mapping may be done at different levels in the organisation (Entity, BU, support function, etc.) - Risk Mapping Methodology: maintenance guide - Risk Mapping Methodology: risk description forms *(is there a need for translation in several languages?)* - Risk Mapping Methodology: detailed risk description forms - Risk Mapping Methodology: simplified risk description forms - Risk Assessment grid – Scaling threats - First risk map - Risk Map – Service activity - Risk Map – Industrial activity - Risk Mapping Methodology: risk description sheet, including action plans

- **Tools utilization on an ongoing basis**

  The issue is to transfer the tools from project mode to an ongoing use that **three rules** must be respected:

  - *Risk owners*: risks must be assigned explicitly to the operational managers,
  - *Monitoring*: the periodic review is key to instilling the culture, the periodicity is dictated by the objectives. Typically, the review is bi-annual or annual.
  - *Reassessment of risk impacts*: usually annual, unless unexpected changes in the context require a specific review.

• Risk containment mechanisms/Risk treatment measures

The risk treatment measures (prevention & protection, and risk financing) already in place or to be implemented guarantee that the objectives that the organisation set to itself will be reached (correct functioning of the operational activities) and hence curb the destruction of value. Reduction measures are illustrated in Exhibit 8.

Types of Prevention Measures	
Risk	**Prevention**
Traffic Accident	Speed Limit
Work related accident	Work Station Ergonomic
Theft, hostile acts	Access controls
Supplier failing	Suppliers' audit
IT spying	System Security
Types of Protection Measures	
Risk	**Protection**
Traffic Accident	Safety belt
Work related accident	Personal Safety Equipment
Theft	Alarms, Intrusions Detection
Fire	Fire Extinguisher

- **Prevention**: the prevention measures reduce the probability of occurrence of the event that may generate damages. These are usually implemented for high probability events. The principle is to modify at least one of the events of the chain leading to the dreaded event. In other words, these actions aim at reducing the probability of occurrence of dysfunctions, risk factors, danger, and perils. The universe of prevention is part of the continuous progress and the search for performance improvement, but the correction is then limited to lowering the probability of occurrence an undesirable event.
- **Protection**: The protection measures reduce the consequences of a disaster. In reality, protection actions have an effect after the occurrence of the event to limit its impact. Some view insurance as an illustration of protection (however only 20 to 30% of disasters are insurable), *most specialists would limit the term protection to the effective curbing of the impact level and would consider insurance as a transfer limited to the financial consequences, hence a risk financing measure as oppose to risk reduction*.

- **Contributions**

Precaution measures, i.e. risk treatment, including loss control and risk financing, are many as Exhibit 8 shows. Their contributions are as follows:

- The systematic and immediate prevention and protection actions allow identifying the risks that will remain the responsibility of the organisation *(including those that will not be insured)*.
- The protection measures include subcontracting to third parties some risky situations *(Insurance companies can not only cover losses but also help in some control measures for insurable risks)*. The implementation of these actions is independent of the organisation for an immediate cover of the risk.
- The optimization of the effort to implement a monitoring of risk control.

The implementations may take different shapes depending on:

- The size of the organisation: SME, Middle Market, Global firms, etc.
- Top management needs and culture: Appropriation more or less express of a risk sensitive management approach,
- Interested parties/Business sector: stockholders expectations, specific regulation for the business sector (like financial institutions, bank or insurance), request linked to external financing.
- The organisation ambition and objectives: expansion, the organisation's performance enhancement, more or less rapidly.

- **Challenges presented when risk treatment plans are implemented**

  Risk treatment measures have become a common issue in any organisation, whatever its size. It is the common world of safety, security, insurance, internal control, and risk management. The major challenges are well known, this is just a reminder based on the drafting team members' experience:

  - **Over protection**: The review of the consistency and the extent of the protection offered by the existing measure is not commonly done. However, this leads often to a multiplication of the control points in addition to other instruments and the question of the relevance of such controls is therefore never raised.
  - **Risk reduction measures aiming at control**: Implemented without perspective on all the other tools, it leads to an unnecessary multiplications of controls.
  - **Over evaluation of the effectiveness of risk treatment measures**: The operational reality is not always translated accurately through the self evaluation questionnaire. It is not unusual that weaknesses exist that are not included in the transmission to top management.

- **List of tools suggested**

  No specific tools are offered in matter of prevention as most of them are part of the protection tool box. As far as traditional financing through insurance transfer, there is no point in listing all the different covers that an insurer may offer.

  Generally speaking, there are three types of tools (technical, organisational, and legal) that allow reaching the set level of precaution, as follows:

  - **Technical tools**: (i) *prevention* like failure detection, security/safety equipment, and access controls, and (ii) *protection* like firewall, compartmentalized storage, personal protection equipment, data backup, spare parts or finished goods inventory.
  - **Organisational tools**: (i) prevention like operating procedures, safety instructions, outsourcing of some functions, redundant training, and (ii) *protection* like continuity/survival planning, redundant suppliers.
  - **Legal tools**: (i) *prevention* like contractual policy for purchasing commitment, and (ii) *protection* like contractual transfer of risk or limitation of liability included in commercial contracts (and when it come to treatment by risk financing, the insurance contacts).

  The practical prevention measures aiming both at probability and impact of risks tend to be specific for each organisation and reflect their own constraints.

- Deployment plans for the risk management efforts
- Self-evaluation questionnaire – at the Entity level
- Self-evaluation questionnaire – at the Process level
- Risk description sheets, including action plans

- **Tools utilization on an ongoing basis**

The rules to ensure the long term use of the tools on an ongoing basis are the same as already mentioned for the other themes.

• Monitoring and review

- **Contributions**

  There exists a number of monitoring and review tools and they are generally in place.

  As far as the drafting team members are concerned, they see two major dimensions in these tools:

  - A vision of the evolution of exposure to risks: the risk management scheme in place should allow weighting of the evolution of the net criticality
  - A vision of controls effectiveness: it is a complex dimension to monitor short of implementing heavy control mechanisms unless two or three levels of controls and measure the effectiveness at each step.

- **Challenges they present when implemented**

  Monitoring and review mechanisms have become a common issue in any organisation, whatever its size. This is just a reminder based on the drafting team members' experience:

  - **Measure of the effectiveness of control measure**: the evaluation transmitted to the hierarchy might not be a true representation of the operational reality, developing an appreciation grid is a complex task.
  - **Measure of criticality**: the criticality assessment id generally limited to a qualitative approach, as attempting a quantitative approach seems a difficult exercise.

- **List of tools suggested**

  The tools used by members of the drafting team are listed in the table below

- Assessment of the effectiveness level of the risk management program (radars, KPI, etc.)
- Reporting of the monitoring of the effectiveness of the risk management program
- Risk monitoring dashboard – Dysfunctions – Action plans
- Monitoring of process performance – KPI – customers process
- Monitoring of process performance – KPI – purchasing and procurement process
- Risk Management scheme maturity evolution
- Impact of Computer risks on trades – like IT/Pay Slip

- **Tools utilization on an ongoing basis**

  The issue is to transfer the tools from project mode to an ongoing use that **three rules** must be respected:

  - Reporting concerning the operational performance must include considerations of risks;
  - Twice a year a formal review of the dashboards results, and the follow-up on dysfunction-risks must be performed with top management/board;
  - Monitoring the evolution of the processes performance for those the dysfunctions of which must progressively disappear.

III Technical Summary Sheets: Step by Step ERM implementation path

The following pages provide the main tips for the implementation of each step.

Step 1: Identifying risk areas	
1 – Objectives	- List the operational activities that generate major dysfunctions and could induce risks; - Identify and rank the main risk areas that might jeopardize the organisation's objectives; - Sketch the architecture of the risk management framework (position the various components of the framework).
2 - Prerequisite	- A document framing the mission developed during step 0, with a description of the immediate objective (compliance) and short term (performance). The document must also include a definition of the scope of the project (operational activities, geographical areas, organisations, entities, etc.) and the stakes to be mastered; - A robust understanding of the trades, products, and markets, and the associated strategy of the organisation, and the implementation methods; - List the existing tools to curb risks: internal control and risk management, and the record of their setting-up within the organisation; - Evaluate the level of risk culture in each of the entities involved.
3 – Tasks to be performed *(what to do to reach the steps objectives)*	- Formalize the specificities of the development strategy and the business plan of the organisation; - Formalize the risk mapping process for a global view, like that from a helicopter, of the activities of each entity and for each of them the mapping must fit on an A3 page. The scope may vary according to the objective; - Localize recurring dysfunctions on the processes description plan. Such processes could jeopardize the overall process progress and constitute potential risk factors; - Identify risk area that could jeopardize the budget and the business plan developed to execute the organisation's strategy; - Quantify the potential impacts of each risk areas to prioritize reduction efforts; - Identify the existing risk treatment tools: governance, functioning charter, control environment, procedure, audit report, quality, etc.
4 – Tool box *(to develop the deliverable)*	- Business model: characteristics and stakes of each trade and activity of each of the entities within the scope of the project; - Strategic plan and 3/5 years Business model for each entity; - Mapping of all the organisation's activity (global vision obtained from the mapping of all the processes). This mapping may be established at several levels: Entity, BU, and support functions – CFO; - Localize risk areas and development of the first iteration or the *"risk universe"*: mapping of trades/risk areas.
Identifying the major risk areas in the entities generated by operational and support activities what could the formalized deliverable for step 1 include	
5 - Deliverable	- **Chapter 1**: Introduction of the vectors product/market, and the development axis of each of the entities involved in the project; - **Chapter 2**: Introduction of the financial stakes resulting from the specificities of the activities and the economic model; - **Chapter 3**: The global mapping of activities and risk areas, positioning the major dysfunctions identified in the process. It is a global view, like that from a helicopter, of the activities split as is required in each specific situation/entity. For middle size entities, the mapping must fit on an A3 page. - **Chapter 4**: A summary of the existing devices, and a sketch of what to put in place.

Step 2: Implementing the Risk Management frame	
1 – Objectives	- Deepen the understanding of the operational activities included in the project through refining the modelling of the processes; - Identify the processes that will be considered as critical; - Develop and implement the Risk Management plan; - Formalize the content of the Risk Management scheme within the organisational frame: functioning, human, technical, and financial resources, the progression of the risk management scheme to guarantee the sustainability of the functioning.
2 - Prerequisite	- Collect and summarized what exists in terms of: (i) strategic and operational objectives of the entity, (ii) representation of activities-trades/units/processes. (iii) documentation on risk management and internal control, (iv) economic model of the entity, (v) representation of the overall entity organisation; - Have a formalized and documented vision *(global helicopter vision)* of risk areas *(and known dysfunctions)* relating to the organisation economic model and its processes. (*The economic model aims at identifying the financial stakes of the dysfunctions/risks in the processes; thus the entity will be able to identify the processes that will be deemed critical.)*; - One or several sponsors, identified and confirmed; - Having selected the standard (AMF, COSO 2, ISO 31000, etc.) that will serve as a foundation to build the RM scheme.
3 – Tasks to be performed *(what to do to reach the steps objectives)*	- Define the scope of the frame (entities, activities/trades, Processes); - Define the objectives assigned to the RM scheme, this means the objectives for the organisation and the benefits for the different actors *(i.e. what they can expect in addition to simply compliance/recommendation)*; - Define functions (i.e. actors) that will have to be involved actively in the scheme, and their respective tasks. Identify the factors that will enhance their participation and ensure the scheme sustainability; - Refine the documented vision that will be used for risk mapping; - Develop the risk-mapping methodology and the associated tools *(top/down, down/up approach, interviews/workshops, risk universe.);* - Implement the methodology and generate the first risk *map (the concept refers here to the analysis and prioritization of the risks in the organisation).* It must be presented to and validated by top management or the instance in charge of defining risk acceptability or risks (if deemed unacceptable risk must be treated – curbed/reduced); the risks included will be those considered major or critical. Action plans will have to de designed immediately for those considered as major (if not already protected by a mechanism); - Locate the major risks within the processes that become thus critical. The process allows to designate a risk owner, the process manager, also responsible of the treatment plan *(the association allows to build the process/risk matrix)*; - Document the architecture of the different components of the RM scheme (identification, analysis, treatment, and review of risks, as well as key forum and tools, and the organisational frame. The monitoring of the sachem can be positioned at this step but it is finalized in step 3. - Elaborate a progressive implementation plan for the RM scheme (define an operational phasing in). A reminder: the sponsor and the team have been nominated during step 0, however new constraints may induce modifications). - Launch the implementation; - Follow-up on the implementation plan and make sure that the planning and objectives are achieved. Correct dysfunctions and anomalies, as need may be.
4 – Tool box *(to develop the deliverable)*	- Refined risk universe - Risk Mapping Methodology (interview guide, risk forms, scales to evaluate and prioritize risks, actions plans, etc.); - Process and risk matrix through which some risks are linked with each process *(the level of detail of these matrices depends on the granularity chosen by the organisation)*; - First risk map; - Implementation plan for the RM scheme.
Development and implementation of the Risk Management Scheme what could the formalized deliverable for step 2 include	
5 - Deliverable	- **Chapter 1**: The major risks identified in the risk mapping process (including the treatment tools and curbing actions, as may be the case); - **Chapter 2**: The critical processes as identified in process/risks matrix, and existing product; - **Chapter 3**: The description of the target frame to protect the critical processes (including the architecture of the components) – it goes far beyond the sole organisation which is only one component of the scheme; - **Chapter 4**: An initial draft of the risk management policy. Treating the risk deemed "unacceptable" by top management will constitute the first risk management policy. Treatment plans are developed to reduce/transfer/suppress those risks.

Step 3: Making sure the Risk Management Frame is efficient	
1 – Objectives	- Verify the risk areas are known and the control measures organized; - Execute the self(evaluation and consolidate the results; - Assess the implementation maturity and whether action plans are relevant; - Establish and implement revised action plans (on the basis of the results of the self-evaluation).
2 - Prerequisite	- Having an organisational framework *(first component)* detailing the roles and responsibilities of the actors, the risk management policy as well as information systems through which is spread risk information internally; - Having a risk management process *(second component)* detailing the identification, analysis, and treatment steps; - Having a sketch for the continuous monitoring and review of the RM Scheme *(third component)*
3 – Tasks to be performed *(what to do to reach the steps objectives)*	- Finalize the elements constituting the monitoring component of the scheme *(sketched at step 2)* so that the discrepancies with the regulation requirements and the chosen standard recommendations *(compliance)*, as well as the objectives to be reached *(effectiveness)*. The expectations concerning the self-assessment can be specified at this level. The roles and responsibilities of the actors involved in this component must be consistent with those defined in the organisation frame *(first component)*, they can be detailed further if need be; - Update regularly *(according to a frequency to be defined)* the process-risk matrices, especially at the light of the dysfunctions that occurred during the reference period *(quarter, semester, and year)* and update the list of critical processes *(those impacted by major risks):* - Develop and propose, with the risk owners, action plans taking into account the cost/benefit analysis of risk reduction measures suggested. Facilitate the dialogue between the actors involved in the RM process; - Link performance indicators with risk factors/sources so that their pending happenstance can be detected; - Implement the self-evaluation questionnaire including the Risk-Management section. The implementation of these questionnaires must take into account the organisation's culture, its specificities, and the level of risk sensitivity of its staff. The project team will include operational staff to develop the questionnaires, so that the organisation's challenges are at the heart of the questionnaires. If needed, it could be tested with a volunteer entity, and there may be help from a local team or correspondents in the entities, that will be trained on RM prior to rolling out the project. When the scheme is full speed, self-evaluation campaign will be regularly launched *(annually?)* within a sustainable organisation, the content of the questionnaire will be updated to reflect evolutions in the internal and external context; - Develop and implement action plans to correct the weaknesses identified during the self-evaluation exercise; - Monitor the implementation of these action plans; - Develop audit plans and objectives based on major risks and critical processes; - Perform the audit and formalize the results (including the analysis of self-evaluation questionnaires filled by each entity); - Assess the RM scheme effectiveness on the basis of the self-evaluation questionnaires, the ensuing actions plans, and the audit results; - Identify the progress action plans that would improve the RM scheme effectiveness; - Communicate the results to all interested parties of the RM efforts.
4 – Tool box *(to develop the deliverable)*	- Self-evaluation questionnaire – Entity level; - Self-evaluation questionnaire – Financial Processes Level ; - Risk Mapping – Service Activity; - Risk Mapping – Industrial Activity; - Risk Form with action plan associated; - Assessment of the maturity level of the RM Scheme (radars, KPI, KRI, etc.); - Reporting of the effectiveness of the risk management scheme.
Risk Taking is contained and monitored What could the formalized deliverable for step 3 include	
5 - Deliverable	- **Chapter 1**: The result of self-evaluation efforts: they will serve as a source for the risk-mapping update ; - **Chapter 2**: The assessment of the effectiveness of the RM process by process *(analyze the position of the current process and the results it produces as compared primarily with the assigned results, and secondarily with the chosen standard requirements)*; - **Chapter 3**: Progress Action Plan associated: It applies to each of the activities, and each of the process within the scope, identical as in the preceding document.

Step 4: Improving the operational processes performance	
1 –Objectives	- Develop a reference table for operational and support processes; - Define and update improvement objectives for the execution of the processes; - Optimize the processes functioning and improve the efficiency and effectiveness of all those within the project scope; - Implement the performance indicators defined for the processes: - Reassess periodically the performances of the activities of the processes, and the level or risk exposure.
2 - Prerequisite	- An updated operational framework providing a description of the entire risk management scheme; - Knowledge of the results of the risk management scheme effectiveness measure; - Engage strongly the operational managers (support) at the level of their processes performance.
3 – Tasks to be performed *(what to do to reach the steps objectives)*	- Define expected improvement objectives to enhance reliability/optimize strategy execution – so that the operational and support processes be highly performing; - Scoping the processes and actions that must be worked on with action plans to improve the operational activities execution modalities; - Refine the understanding of operational processes through the description of the activities that ensure their functioning. To achieve that the tasks realized in step 2 will prove useful; - Define taxonomy for the performance of the processes through the definition of appropriate measures (KPI, etc.) - Define indicators to (i) ensure the continuing of compliance, (ii) measure the cost *(number of manual controls, number of automatic controls, number of staff involved, number of reporting and the time involved to do them, etc.)*. (iii) measure performance and effectiveness; - Identify correcting actions to put in place to reduce the dysfunctions, and redress the execution depending on the improvement objectives and the risk level defined by top management.
4 – Tool box *(to develop the deliverable)*	- Processes Taxonomy – supplies and purchases (procurement) - Processes Taxonomy – Human Resources - Processes Transformation – Systematic Order Form for purchase - Monitoring of processes performance – KPI – customers processes - Monitoring of processes performance – KPI – procurement processes - Risk Monitoring Dashboard - Dysfunctions
Robust and Performing Processes to enhance performance and risk taking what could the formalized deliverable for step 4 include	
5 - Deliverable	- **Chapter 1**: The improvements objectives expected, - **Chapter 2**: The referencing of all processes within the chosen scope, - **Chapter 3**: The dysfunctions to be eliminated and corrective actions to be initiated, - **Chapter 4**: Action plan(s) that must be developed and their implementation planning, - **Chapter 5**: Follow-up plan to monitor the improvements, including the KPI for the processes within the scope of the project.

Step 5: Optimizing the Risk Management Frame	
1 – Objectives	- Simplify the processes that are mature and mastered in order to improve their efficiency; - Master risk taking while optimizing technical, human, and financial resources; - Integrate risk management efforts to all projects in the organisation.
2 - Prerequisite	- Having reach the level of effectiveness of the RM scheme evidenced by an internal or external evaluation with monitoring of the action plans (aiming at compliance); - Having a reference table for processes and for risks; - Sponsors maintaining the momentum *(no questioning of effectiveness, but request of optimization).*
3 – Tasks to be performed *(what to do to reach the steps objectives)*	- Evaluate costs of the RM scheme during the development phase *(project mode)* and on an ongoing basis *(sustainable mode)*: internal cost *(times spent by staff on the RM effort, RM tools costs, etc.)* and external associated costs; - Define indicators to (i)ensure ongoing compliance, (ii) measure the costs *(number of manual controls, number of automatic controls, number of staff involved, number of reporting and the time involved to do them, etc.)*. (iii) measure the results – performance and effectiveness; - Review risks and their criticality level *(identified and assessed during the previous steps)*, and update the vectors process/risks *(reviewed at step 3)*. This review allows acting on the performance enhancement points identified in step 4. In fact, these points are taken into account to develop action plans aiming at improving the performance; - Spot the *"embarked"* controls *(within the applications)*, and verify that they are not redundant with those in the *"trades"*; - Review and update the risk management frame *(established at step 2)*. - Update/Optimize/Simplify the risk management scheme (and the controls associated with it) within a type GRC approach.
4 – Tool box *(to develop the deliverable)*	- Review of the process/risk matrix: systematic analysis of "critical" processes to ensure they are still so; - Risk Management scheme maturity evolution; - Impact of Computer risks on trades – like IT/Pay Slip
Efficient risk taking and resources optimization What could the formalized deliverable for step 5 include	
5 - Deliverable	- **Chapter 1:** Review the processes to verify if those classified as critical remain so; - **Chapter 2**: Monitor the progress towards maturity of the RM scheme and action plans review. Analysis of the simplifications that could be implemented to the actions concerning the "non critical" processes; - **Chapter 3**: Introduce the IT dimension in the process as an axis of progress. Identify double protection and trade impacts of the IT. Assessment of the level of control of the IT risks.

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