

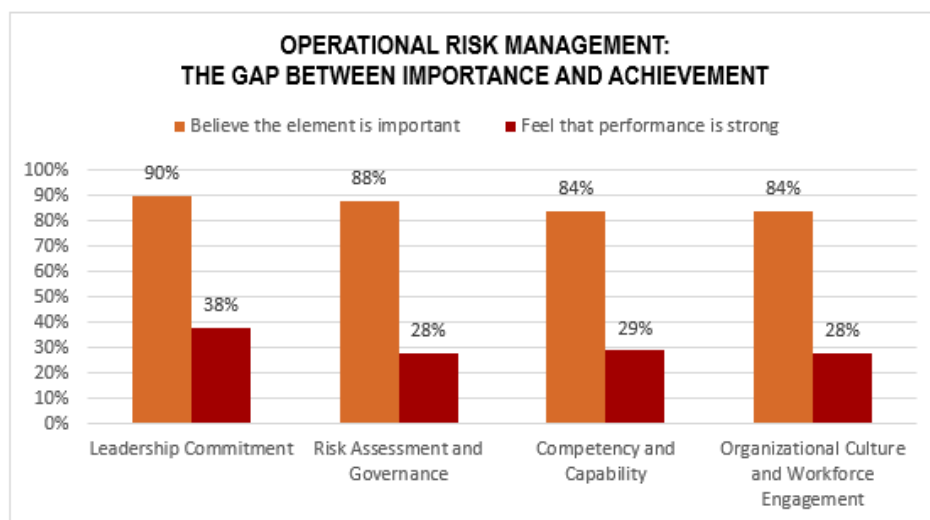
What's getting in the way of truly integrated operational risk management?

First-hand perspectives on key challenges, barriers and solutions.

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In a 2017 Global Risk Survey of more than 80 organizations, DuPont Sustainable Solutions uncovered four elements of operational risk management that, while important, were often not performed well. At an October CCPS Technical Steering Committee meeting in Singapore, we sought to validate these findings—asking participants from diverse roles and industry sectors whether this outcome resonated with them. We asked if they felt that these gaps existed in their own organizations, and why.



Source: DuPont Sustainable Solutions 2017 Global Risk Survey

Nearly 60 people, representing global manufacturers, industry associations, underwriting firms and consulting groups, came together to reflect and share their points of view. The inclusion of front-line practitioners, middle management and executives assured input from all levels and perspectives.

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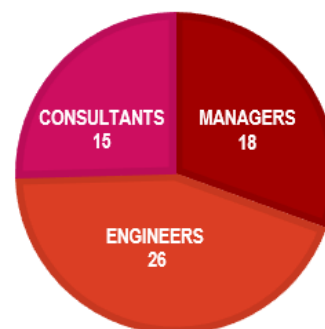
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Individuals were assigned to teams tasked with identifying the central challenges, barriers and solutions associated with one of the four performance gaps revealed by the survey:

- Leadership commitment
- Risk governance and assessment
- Competency and capability
- Organizational culture and workforce engagement

A summary of the discussions and the participants' perspectives is presented here.

PARTICIPANTS BY ROLE



Theme 1: Leadership Commitment

Operational risk management starts, but can't stop, at the top.

Workshop participants identified the three primary challenges associated with leadership commitment:

1. Multiple priorities and initiatives competing for leadership's attention and contributing to a lack of clear direction.
2. Communication complexity and style, including the absence of effective channels and the need to communicate in a way that can be understood throughout the organization.
3. Ownership and accountability, and assuring that ownership is felt by, not just assigned to, those at all levels.



Distinct barriers to overcoming these challenges stand in the way—most notably a conflict in how key performance indicators are set and measured. KPIs that exist within functional silos, for example, encourage people to focus too narrowly, rather than looking at the whole business.

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Changes in leadership, breakdowns in communication between leadership and the shop floor, and the organizational culture can also undermine the ability to address risk. What's more, in trying to make a risk-based decision, organizations may overweight the cost of implementation or view positive trends and past performance as evidence that they are not at risk. Either of these attitudes may lead to unaddressed risks that could result in an incident occurring at any time.

While ongoing training and a phased implementation plan can help address barriers such as awareness and cost, engaging the workforce and nurturing a culture committed to managing operational risk is the gateway to gaining the support of the full organization. Senior leadership must "walk the talk," making a risk-based mindset fundamental to every aspect of the business.

Theme 2: Risk Governance and Assessment

Assuring access to critical resources and expertise.

In the discussion about risk governance and assessment, three primary challenges stood out:

1. Availability of expertise and resources to recognize and assess the full range of critical risks.
2. Lack of capable resources to manage identified risks.
3. Ongoing risk assessment as part of change management.



Costs, personnel changes, lack of competency and the limited scope of assessment methodologies can all present barriers to continuing assessment and governance. What's more, a compliance-focused attitude can get in the way—an organization cannot be satisfied with merely meeting standards or regulations or leaving operational risk management to contractors and consultants. The organization must review and ensure that risks are managed effectively and efforts invested result in the desired outcomes.

The primary solution here points back to leadership commitment—a willingness to champion, invest in and enhance risk assessment and governance efforts. What's more, risk must be viewed through multiple lenses and reviewed over time, using a variety of assessment methodologies to address the full range of potential exposures.

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Theme 3: Competency and Capability

Training beyond "what" and "how" to help people understand "why."

Building true competency and capability among the workforce faces a few important challenges:

1. Knowledge retention, especially in organizations with high turnover.
2. Lack of time or processes that emphasize a robust internal framework for competency development.
3. Attachment to traditional training methods.



Enterprises need to be willing to evolve and meet the growing need for increased capabilities beyond traditional training. After all, training is completed and forgotten. Instead, it's necessary to think in terms of developing competency—ensuring that workers and middle managers know not just what to do and how to do it, but they also understand why. Without this deeper understanding, workers perform without thinking and lack the ability to respond to process deviations or malfunctions.

In addition, participants suggested that solutions should include:

- Root cause analysis to help identify knowledge gaps.
- Specific training framework designed to develop deeper understanding.
- Change management processes to address talent turnover.

Theme 4: Organizational Culture and Workforce Engagement

The hardest factors to gauge and change may be the most important.

Driven by shared attitudes and values, an organization's culture can help overcome challenges or lead to new ones. Culture can be at the root of challenges such as:



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1. Lack of ownership and engagement, which can affect what and how incidents are reported, whether employees raise their hands with new ideas, or whether people simply shrug off problems and risks as belonging to someone else.
2. Middle-management overload preventing them from prioritizing and committing to operational risk management.
3. Resistance to change.

There can be significant barriers to addressing these challenges, such as:

- The belief that because something hasn't happened, it won't happen.
- Leadership not understanding the complexity of the issues they want to address.
- Managers who blindly follow the 80/20 rule and ignore potential risks.
- A culture that fixates on placing blame rather than finding systemic solutions.
- Middle managers who feel sandwiched between opposing viewpoints or become a pinch-point that prevents information from flowing up from the shop floor or down from leadership.
- Lack of effective communication channels to disseminate critical information throughout all levels of the organization.
- Unclear roles and responsibilities.
- Lack of resources.

The idea that "it hasn't happened yet, so it won't happen" must be abolished, as this can blind the organization to very real risks. In addition, it's important to ensure that all identified and emerging risks that are deemed unacceptable, as defined by the organization or regulatory bodies, are effectively addressed.

The first step in resolving organizational culture challenges is to focus on systemic improvement while engaging and involving individuals through regular communication. The organization should foster engagement by helping all employees and contractors better understand the reasoning behind expectations, including rules and procedures, and consider incentives to reinforce and influence behavior and adoption. With consistency and commitment, these efforts can guide the culture in the right direction and help overcome barriers by naturally helping to clarify roles and responsibilities, reinforce expectations and align the organization at all levels.

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Where does the industry go from here?

In reviewing the teams' input, we noted that similar challenges and solutions appeared in multiple themes. Why? Because business performance, operational risk management and organizational culture are inextricably connected. Going forward, it's important to recognize that efforts to affect one lever require attention to all three.

Effective risk management demands a critical look at the underlying culture and a connection to overall business objectives. Business performance requires an understanding of risks and consequences across all functional silos, as well as a culture that will support necessary change. Those organizations that appreciate this interdependency and work to enhance all elements in tandem will be best poised for ongoing success.

