Commercial Risk
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# Risk management should be values-based and add strategic value.

**Liz Booth speaks to Marsh Africa's Christelle Marais about tough questions and conversations that risk managers, c-suites and boards should engage with to help ascertain if they are making their organisations better off.**

Achieving economic and social development aspirations while pursuing value creation in a legally compliant and responsible manner are key objectives of South Africa's Companies Act. However, some of the sections in the Act are not achieving the economic outcomes that the legislator originally envisaged, and it is increasingly important to integrate various areas of governance, risk management, compliance, and sustainability in a cost-effective and values-based manner, explains Christelle Marais, chief risk officer at Marsh Africa. According to Ms Marais, strategic risk management is not about ticking boxes to ensure compliance with legislation without considering how those boxes interact with:

- The four King IV outcomes of ethical culture, performance and value creation, sound internal controls and legitimacy.
- The triple context within which all organisations operate, i.e. economy, society and environment.
- The six capitals on which all organisations have an impact: financial, manufactured, intellectual, social and relationship, human, and natural.

The values-based approach in South Africa's Corporate Governance Code (King IV) removes the onerous burden of risk management and compliance efforts in organisations and may aid in achieving the economic development goals of the country (including those in the National Development Plan), if approached correctly. Ms Marais believes that stronger collaboration between various bodies with related goals in mind would go a long way to addressing the current barriers. These include:

- The Department of Trade and Industry (custodian of the Companies Act).
- The Institute of Directors Southern Africa (custodian of King IV and which is able to guide boards and individual directors on how best to integrate its outcomes into the organisations that they oversee).
- The Institute of Risk Management South Africa, Compliance Institute of South Africa, The Ethics Institute and Institute of Internal Auditors South Africa (which all play key roles in enabling their members' professional approach to integration of the various governance disciplines across the public and private sectors).
- The National Treasury (custodian of risk management practices in government departments and state owned companies).

Key to the work of the Department of Trade and Industry is a review of the roles of the Audit Committee and Social and Ethics Committee, as included in the Companies Act. Ms Marais explains that this is a key reason for her participation in the department's research forums on this topic, which aims to collect all relevant information and professional views on how best to structure these committees in the legislation, to achieve the desired economic behaviour and outcomes across all sectors of the economy (including multinational entities that may not be managed from South Africa).

Execution of a company's mandate and strategy through quality, risk-informed decisions should be the ultimate outcome pursued by all risk managers, argues Ms Marais. However, she says the economic pressures on organisations too often prevent risk managers from applying their minds and processes to this broader strategic agenda, hence short-term deliverables often get in the way of creating long-term sustainable value.

To close these gaps, Ms Marais encourages risk managers, c-suite representatives, and directors on governing bodies to ask themselves some thought-provoking questions, such as:

- What is the difference between the opinions of the risk manager, the c-suite and the board with regards to why the risk management function exists?
- What questions should the board of directors ask about the real content of the risk reports that they receive?
- Apart from reviewing a risk report for its actual risk content, what does the same report say about the risk management, compliance and governance culture of the organisation?
- Does the risk appetite framework clearly drive risk-decisions in a coordinated way or does it remain mostly subjective? If so, what is the purpose of the risk management effort in the company?
- Does the risk management process closely interrogate the strategy process? What are the risks to the strategy and, more importantly, what are the risks if the strategy is actually achieved?
- Are the lofty phrases that are so often included in companies' vision and mission statements actually pulled apart by risk managers, to determine what the risks relating to non-achievement of those statements are?
- What does the organisation destroy and what does the organisation create while going through its business every day? Does it play fairly towards the communities within which it operates?

Given recent governance failures across various sectors of the economy, Ms Marais challenges boards, c-suites, and risk managers to use close introspection as to the value they add to their organisations. She further encourages all parties to have the difficult conversations, to challenge non-value-adding activity, to drive real action relating to risks identified and to hold each other accountable to achieving the desired risk profiles that will create economic value. Ms Marais stresses her belief that there is not much room left in the current economic system to continue on a path of mere or even “malicious” compliance. She says it is vital to make quality decisions now, and to ensure effective and efficient execution that drives real outcomes.

In both the public and private sectors, Ms Marais believes that risk managers are in the fortunate positions to be the “ultimate integrators”, to have a view of all processes, operations, tactics, and strategies across their organisations and to cleverly position that information so that the right decisions are enabled. This requires companies to recognise the key roles of their risk management functions and position these functions optimally. The risk, otherwise, is that risk management becomes a costly compliance exercise that does not add strategic value.Too often, suggests Ms Marais, the dots between the various governance functions are not connected (something that she believes is integral to King IV), leading to inefficiencies and frustration in the risk management process. The key question that all risk managers, c-suite representatives, and directors should ask is whether their organisations are better off because of the risk management contribution or not.

**Interview with Christelle Faul Marais**
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