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CREATING A RISK
MANAGEMENT CULTURE

BY DAVE INGRAM

IT HAS BEEN DONE BEFORE. U.S. businesses all changed their cultures, at least the survivors did. But that was 30 years ago now. In the early 1980s, inflation was out of control. Prices were growing at a double-digit clip. In many firms the prevailing expense management culture was to spend what you had to and let growth take care of it. Many firms did not even keep good track of their expenses. This attitude was developed during the decade of the 1960s when GDP growth rate was over 5 percent about 50 percent of the time. In the late 1970s and early 1980s, budget discussions started at the level of last year plus inflation. But after a few years of this, some firms realized that they were not on a sustainable path. The idea of a tight expense management culture emerged. Some companies adopted short-lived techniques like "Zero Based Budgeting,"

but most settled for embedding a simple, but transformative, set of ideas into their management processes:

1. Always ask, "How much will it cost?"

2. Always consider, "Can we achieve the same result at a lower cost?"

3. Keep close track of spending and treat expense reports as an important management tool that receives much attention.

4. When you go over budget, the variance must be explained immediately and repeated unfavorable variances are not acceptable.

5. Good expense management was a part of compensation and advancement criteria.

Flash forward to the current decade. U.S. businesses are changing their cultures; at least the survivors are changing. In the prior decade, risk taking was out of control. Many firms had the practice of taking as much risk as they could to maximize their earnings. Some did not even keep track of how much risk they were taking.

Risk management is being adopted by more and more firms every year. But so far, only a few are doing risk management as more than a bolt-on process that runs on one side, not really a part of their company culture. What is needed is a similar process that led to the embedding of expense management. What is needed is for some simple questions to become an everyday part of running the company:

1. Always ask, "How much risk does it add?"

2. Always consider, "Can we achieve the same result with a lower risk?"

3. Keep close track of risk exposures and treat risk reports as an important management tool that receives much attention.

... an embedded risk management culture is not expensive. An embedded risk mangement culture does not stand in the way of doing business.

4. When you go over a risk limit, the variance must be explained immediately and repeated unfavorable variances are not acceptable.

5. Good risk management was a part of compensation and advancement criteria.

With risk management currently existing as an add-on process, it is expensive and easy to just ignore. But an embedded risk management culture is not expensive. An embedded risk management culture does not stand in the way of doing business, it is part of the way of doing business.

But how did that expense culture happen in the 1980s? It was not a bottom-up process. It did not become embedded because firms hired or promoted the budget director. It became part of everyone's everyday routine because questions like those above were asked by the senior executives every time someone came to them for approval or for review of a decision. Because the executives made it completely clear that these questions were always important to them.

Companies whose management does this will have a risk management culture that will operate through many eyes,

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hands and minds throughout the year to make sure the risks the company is taking are no more than are needed to achieve their business objectives. **A**

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