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Managing risky business

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Navigating the risky shores of business is part of the thrill of leading a business or being an entrepreneur. But a wise business leader knows that the ability to foresee and manage risk can make or break strategy and affect overall performance.

The risk management function is becoming more prominent in organisations across the world. The 2008 financial crisis sent shock waves through industries and made companies more aware of what they needed to do to manage risk and mitigate its impacts.

Today's risk managers are tasked with keeping abreast of risks posed by issues such as plummeting commodity prices, unstable political environments, currency fluctuations and costs of basic services such as electricity and water.

"It's mainly the smaller companies that may be complacent or unaware of risks, but the larger organisations, on the other hand, have no excuse. For companies such as Sasol, for instance, risk management is extremely important and they have a dedicated full-time risk officer," says Andrew Joubert, Director of Executive Education at the Wits School of Economic and Business Sciences.

Prior to the crisis, many companies' approach to risk management was fragmented, with various departments responsible for different types of risk. The emergence of the Enterprise Risk Management (ERM) system brought about a more consolidated approach that provides business leaders with methods and processes that will mitigate the negative impacts of risks and allow an organisation to maximise opportunities that may arise in the process.

Andrew Joubert. PHOTO: CONTRIBUTED

"Some companies have risk management taken care of by their internal audit division, which is also a good place for it to be. However, it mostly focuses internally; so that role is looking at internal auditing, making sure that everybody inside the organisation is compliant and is addressing risk. That could be in cases of fraud or monetary losses, for instance, whereas they might be losing sight of some of the external risks that exist," he says.

Joubert was in Windhoek last month to facilitate a risk management workshop held by the HP-GSB.

In order to manage risk, one must first identify the local and global risks in their respective industries; and then evaluate and assess the likelihood and severity of these risks, and how they will affect the business.

"Having done that, managers then need to look at mitigating the risks. This can be done by avoiding the risks through changing their systems or adopting safer work practices, for example. Alternatively, the risk can be outsourced; risk can be transferred through insurance. Insurers are a very important part of risk management worldwide, as are re-insurers, in cases of major disasters," Joubert explains.

"Having mitigated risks as far as you can, you must continually monitor and report on your risks so that you remain up to date in case things start to go wrong, or you are beginning to move away from your KPIs. Those first signs of risk must be reported to everyone in the organisation and not just yourself," he adds.

Participants in the workshop engaged in an active discussion about country risk in Namibia. Risks that came out strongly were public health, poverty, unemployment, natural risks (drought), and water and electricity.

"Of course these are similar to those experienced in other Southern African countries. Other risks included legal risks, although Namibia is much more stable and well led than other countries. There is a lot of certainty in terms of the Companies Act and financial regulations. What people were mostly concerned about was poverty, the spread between the haves and have-nots," Joubert says.

"One of the financial risks the country faces is the fact that the Namibia dollar is pegged to the South African rand and therefore the country is at risk as to what decisions the SARB takes in regard to interest rates and the impact that might have on Namibia," he notes.

Another one of the risks that emerged during the workshop was "the fiscal cliff" - a sudden and severe economic decline brought about by a particular set of financial factors.

"It's not as severe as in some other countries that are facing serious problems, but a growing civil service means higher wages that could prove difficult to fund in future," Joubert explains.

"South Africa is a case in point; if we carry on at our present growth rate, and bloating our civil service then we are heading for major problems. In Namibia it doesn't seem to be as severe, your borrowing rate is lower and your economic growth has been a lot better than that of South Africa. Five percent growth per annum is great, but it could be derailed by severe drought, climate changes, electricity shortages and other such issues. Those are some risks, but of course we hope that those things won't occur."

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