

Risk management: Roadmap to 'maturity'

By Miriam Kraus

Spencer Stuart / DirectorS & Boar DS Director S r oSter fourth quarter 2008 15 A s globalization and regula- tion intensify, many compa- nies respond to these com- p l e x i t i e s by i m p l e m e n t i n g rigorous risk management processes. SAP, a g l o b a l p r o v i d e r of enter pr ise management software, is no exception. SAP's initial risk management efforts were aimed at g r e a t e r efficiency and regulatory compliance, but, as detailed here, SAP g r a v i t a t e d to an enter pr ise-w i d e r i s k m a n - a g e m e n t solution to take full advantage of its capabilities and increase organizational consistency. S p e c i f i c a l l y, a b r o a d e r risk management approach strengthened key businesses' processes, enhanced predict- ability of SAP's operations, and suppor ted the compa- ny's overall business strategy. Consequently, SAP's imple- m e n t a t i o n a p p r o a c h c a n serve as a roadmap for other companies evaluating when and how to bolster their risk management capabilities. S A P l a u n c h e d i t s i n i t i a l r i s k m a n a g e m e n t i n i t i a - t i v e in 2002 to ensure compliance with various regulatory mandates, as well as synthesize and analyze information re- lated to internal financial processes and controls. As a company with worldwide operations, including emerging markets, SAP found itself in a position familiar to many companies: without an automated approach, the company was spending too much time and resources to identify and manage risks. To accommodate its global growth plans, contain costs, and ensure accuracy and reliability of data, SAP determined that an automated so- lution that integrated risk management information and activities across busi- ness processes was required. There are several ways to implement a risk management solution. Many com- panies employ a 'top-down' approach, using st r a t e g i c g o a l s as touchstones across all business units. While enter- prise-wide risk management was its ult imate go al, SAP took a different path to risk management maturity. To gain immediate value and return, SAP first focused on key operational processes and a c t i v i t i e s to dr ive out costs and increase efficien- cies. A new internal system provided key process controls that enabled better mitigation of financial risks. Supported by the entire executive board and all senior SAP executives, global risk management stan- dards were implemented in all lines of business for the identified risks. After completing this ini- tial phase of the risk manage- ment effort, SAP expanded its approach to implement risk management across the entire enterprise, which allowed it to integrate and align risk management across financial, operational, and strate- gic risks. The broader scope was achieved in part by senior executives conducting detailed risk assessments across all the company's lines of business. One result of the

expansion was that risk information became accessible and manageable across all levels of the company. Beginning in 2006, SAP started to map risks consistently to strategic goals within its risk management system. By integrating strategic, operational, and financial risks in one solution, SAP achieved true enterprise-wide risk management, providing managers with a holistic view of risk data, and doing so more efficiently and effectively than previously achieved. Ultimately SAP's risk management initiative produced what its leadership needed most: an aggregate, reliable risk management profile of the whole business that was easily communicated and aligned its risk appetite with the company's strategic objectives. It enables executives at all levels of the company to make more risk-intelligent decisions. By using a self-developed, automated solution to manage risks, SAP has increased transparency across risk initiatives and improved efficiencies in managing risk. Automatic triggers and workflow tools help risk managers and business managers detect risks at the earliest stage, which can mitigate the impact of the risk. On a more transactional level, SAP can now efficiently document and manage all risks and interactions related to a specific activity or customer throughout the lifecycle, from pre-account planning to product delivery and service. In summary, by expanding its risk management solution to an enterprise-wide level, SAP is capturing multiplicative benefits across the company. Given the positive results, SAP continues to evolve its approach by identifying and managing new risks to support better decision making. To achieve this, risk managers and business managers collaborate closely to analyze the implications of the risk management data, describe new key risk indicators, link those indicators to strategic goals, and set appropriate risk levels. SAP sees its investment in holistic risk management as an important advantage in maintaining market leadership, even at a time when global risks are proliferating. ■ The author can be contacted at miriam. kraus@sap.com. Corporate Accountability Agency

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Risk management: Roadmap to 'maturity' There are several ways to implement a risk management solution. Here is what SAP itself did. By Miriam Kraus