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Enterprise Risk Management as a Tool to Attract Investors to Your Business

Investors are navigating an economic climate where global communication is perpetuated on a plethora of social media platforms, where consumers have the final say and a brand name can be tarnished in a matter of minutes thanks to the power of citizen journalism and digital media. Amidst the turbulent tides, investors are leaning towards responsible investing and are paying greater attention to organisational risk management practices and their influence on brand and reputation according to Aon South Africa, leading risk advisors and insurance brokers.

Responsible investment is defined as an investment strategy that seeks to generate both financial and sustainable value. It consists of a set of investment approaches that integrate environmental, social and governance (ESG) and ethical issues into financial analysis and decision-making. With such onerous requirements, it places the emphasis on enterprise risk management (ERM) in sharp focus as a means of managing all potential risks that could create a reputational hazard that could scupper the anticipated returns for a potential investor.

"Reputational damage was rated as the #1 risk in the 2017 Aon Global Risk Management Survey. Investors are clear in wanting to avoid the potential for corporate blunders and risks that have perpetuated the headlines in recent months and dramatically impacted the reputations and share prices of some of the world's biggest brands - from vehicle manufacturers, oil and energy companies, technology companies to airlines," says Michael Ferendinos, Enterprise Risk Business Unit Head at Aon South Africa.

"Investors are not as easily swayed by well-worded risk management pieces within corporate integrated reports. Whilst many of the key organisational risks may be disclosed in the report, it does not necessarily mean that an effective risk management programme or culture is in place. The reality is that organisations that possess a mature risk culture demonstrate it in multiple ways, and savvy investors know exactly what they are looking for in this regard," adds Michael.

The softer or more subtle approach involves ensuring that responsible risk management practices form part of all corporate dialogue to both internal and external stakeholders. Similar to a safety culture, risk management should form part of a strong corporate identity. This, in turn, develops a sense of trust from investors that are not involved in the day to day activities of an organisation.

"A more tangible demonstration of a mature risk culture is illustrated by an organisation's actual response to a disaster or emergency, across all categories of risk. This applies to not only managing the repercussions of the event but also communicating what was done prior to prevent its occurrence, as well as actions that will be taken afterwards to firstly prevent it from reoccurring, as well as rebuilding the brand reputation," he adds.

Another risk-aware approach that an organisation has at its disposal that clearly illustrates its high level of risk maturity is the acknowledgement that it doesn't operate in a vacuum. This level of self-actualisation naturally lends itself to a business strategy that is enabled to proactively respond to multiple possible futures, including a very clear understanding and acknowledgement of those risk factors that are not within their control.

"Organisations should make investors aware that their strategic decision-making is fundamentally risk-based," suggests Michael. "It clearly demonstrates that the organisation has a thorough understanding of each possible risk’s negative or positive outcome, and how it evolves across different scenarios, and what strategies need to be in place to manage them effectively.”

“Investors are increasingly expecting organisations to take ownership of risk programmes in acknowledgement of the delicate link it has to the sustainability of the organisation. Not only does it demonstrate the ability of the leadership to navigate the risks that are looming like silent icebergs, but it also instils a sense of trust that their investment is in the most capable hands,” says Michael.

“For any business looking to attract quality investors and grow the business, the starting point should be a through and strategic analysis of all the risks that have the potential to impact the business, and tangibly demonstrating how the business is directing and controlling the collective risks that can either positively or negatively impact the achievement of its objectives and returns. Enterprise Risk Management provides the framework to understand and respond to business uncertainties and opportunities with relevant risk insight delivered through common, integrated risk identification, analysis and management disciplines. ERM enhances organisational resiliency by improving decision making, strengthening governance and supporting a risk intelligent culture,” says Michael.

“Aon’s risk specialists are acutely aware that risk management is evolving from an overtly negative activity to one that recognises opportunity as the other side of the same coin. Our integrated risk identification and response solution reconciles two often opposing activities – threat and opportunity management – into a common process. This can be further categorised into strategic risk management which aligns with the organisational strategy enablers, preventable risk management and external risk management, aligning to organisational execution and performance enablers, everything that a potential investor in your business is looking for,” concludes Michael.

Aon’s Enterprise Risk Management Centre of Excellence provides clients in Africa with leading, practical long-term risk management implementation partnerships and specialist short-term risk assignments, providing local and international organisations operating on the continent with the tools and insights necessary to thrive in an increasingly complex and competitive operating environment.

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