

Risk Management  
You Know the Rules.  
You Have the Tools.  
What Else?



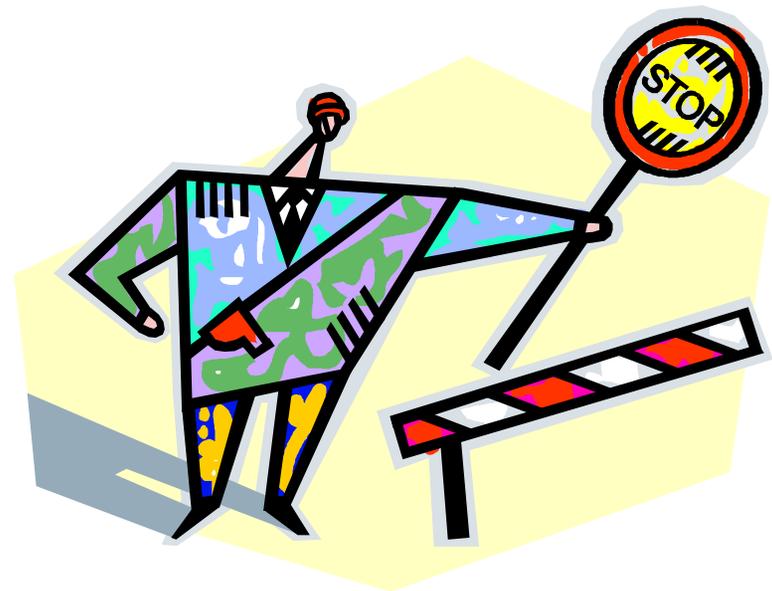
*Dallas Chapter*  
*Institute of Internal Auditors*  
*August 5, 2010*  
*Ed Maier*

# Thank You

- Priya Sarjoo, Grant Thornton LLP
- Warren Stippich, Grant Thornton LLP
- Bailey Jordan, Grant Thornton LLP
- Greg Estes, Texas Instruments
- Bill Kline, VHA
- Gina Moore, VHA

# Survey

- Internal Audit Directors and Board Members
- About 30% response
- The question: What are the top three barriers (that do not relate to understanding the rules or developing appropriate tools) that internal auditors encounter in fulfilling their responsibilities to assist in the Risk Management process?



# What They Said...

- Does the Internal Auditor understand the business well enough to be a valued participant?
- Should the Internal Auditor lead the risk management process? Is she/he qualified?
- Does the Internal Auditor develop appropriate relationships with the operating/functional teams to be effective?
- Is the risk management process substance over form, or vice versa?

# What They Said...

- Is the level of support by management, the Board of Directors and Audit Committee sufficient?
- Does the Chief Audit Executive have sufficient stature to be the owner (e.g., a VP and a direct report to the CEO)?
- Does senior management have the respect for Internal Audit in order for them to play such a role?
- Does each person understand their role in the risk management process?
- How do you separate the role of helping identify risks and then independently auditing such risks?

# What They Said...

- Do management and the Board understand what the role of Internal Audit should be? Are expectations set too high or too low?
- Have we communicated risk management effectively so that our employees understand their role and responsibilities related to risk management?
- Do we seek or share “best” or “next” practices – both internal and external?
- Has clear ownership of risks been established? (“I’m not managing that risk, I thought you were managing it.”)

# What They Said...

- “Dealing with risk management is for (some) management the equivalent of going to the dentist; they need their parents (the Board) to drive them to the dentist’s office.”



- “...currently it seems there is more interest in asking: What could be our Gulf of Mexico oil spill?”
- “People have been talking about ERM since original COSO was introduced in the early 1990’s (and even before that)... SOX and then the global recession fostered renewed interest, but there is still more talk than action”.

# What They Said...

- Make better use of leverage.
- Identify the current state of risk management.
  - What currently exists in different departments, divisions, locations that might be duplicative?
  - Do we have a common language?
  - Have we eliminated duplication of ERM effort across the business?
  - Have we established common reporting of risks and monitoring activities?
  - Have you sufficiently identified and leveraged existing risk management activities across the business?
  - Have you eliminated duplicative activities?

# What We Will Cover Today

- Communications
  - Importance
  - Forms, advantages, content
- Impact of emotions
- Different behavior styles
- Leadership and culture

# So Much of What We Do Is About Communication



The exchange of thoughts, messages, or information, as by speech, signals, writing, or behavior.

(American Heritage Dictionary)



# Effective Communicators

Care about people.

Listen carefully.

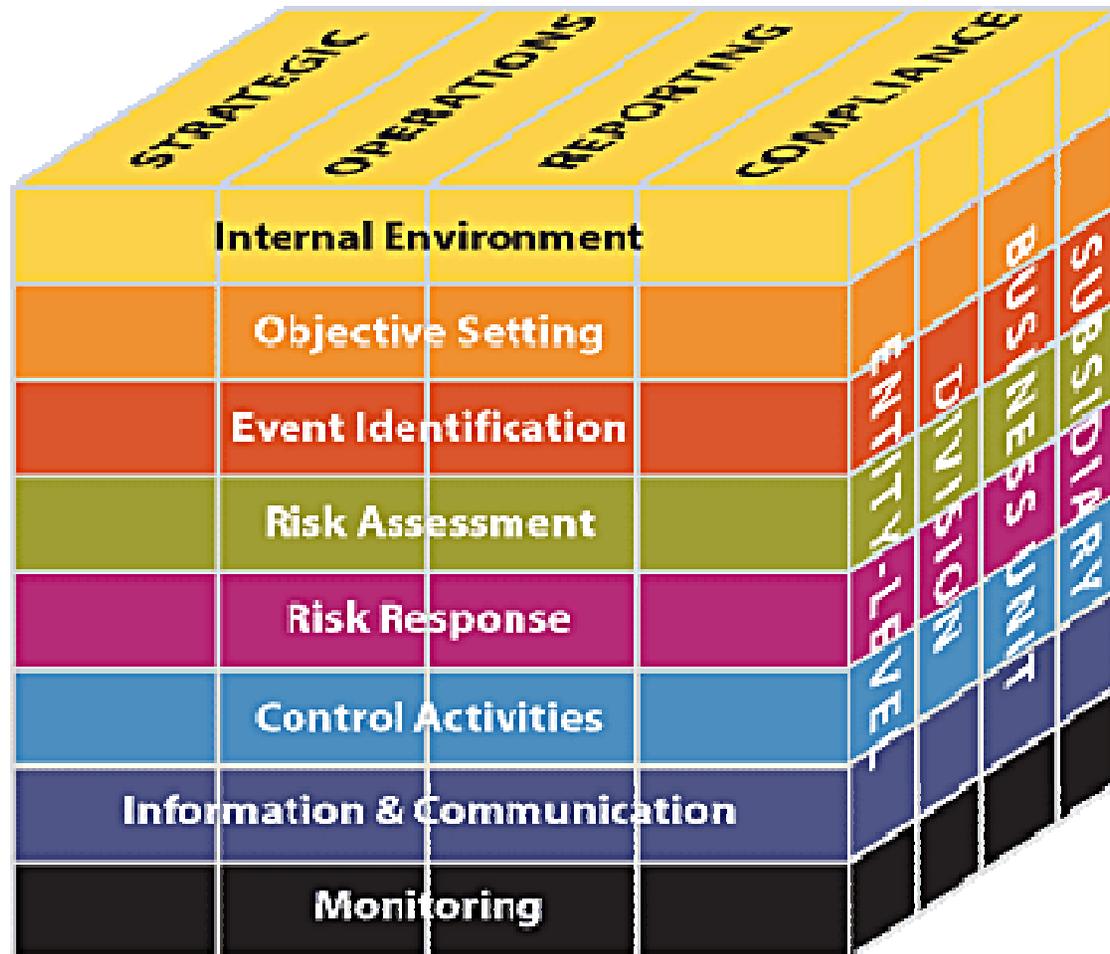
Send their message effectively.

Communicate with style.

“People do not care how much you know until they know how much you care.”  
-- John Maxwell

Source: Tim Kight – Personal Best

# COSO Internal Control Integrated Framework



# What COSO Says About Communication

- Pertinent information must be ... communicated in a form and timeframe that enable people to carry out their responsibilities.
- Communication must flow down, across and up the organization.
  - A clear tone from the top.
  - Everyone must understand their role in the process.
  - They must understand how their individual activities relate to the work of others.
  - They must have the means to communicate significant information upstream.
  - There must be effective communication with external stakeholders.

Source: COSO website -- <http://www.coso.org/IC-IntegratedFramework-summary.htm>

# Move Enterprise Risk Management Along the Value Continuum – Grant Thornton



And, communication is a significant piece of the puzzle --

**Reactive**

- Lack of Board or senior management emphasis on risk
- **No common risk lingo**
- Stove-pipe risk management
- Ad hoc approach
- Missing coverage of risk areas

**Aware**

- Some board and senior management support
- Risk leader identified
- Periodic risk profiling
- **Key risks defined in common vocabulary**
- Recognized need for ERM

**Strategic**

- Proactive board and senior management involvement
- Risk managed and assessed across entire organization
- **Common language and approach used and understood**
- Real-time analysis of risk portfolio



Source: Bite-Sized ERM, Bailey Jordan, Warren Stippich – Partners, Advisory Services, Grant Thornton LLP

# Language Values

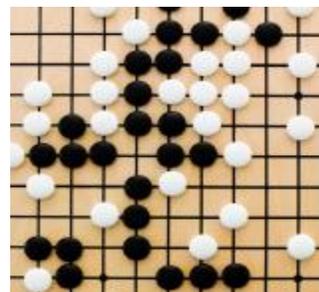
Reactive – No common risk language exists across the business.



Aware – Key risks are identified in a common vocabulary.



Strategic -- Common language and approach used and understood.  
*"Everyone is a risk manager. It's now in the DNA of our company."*



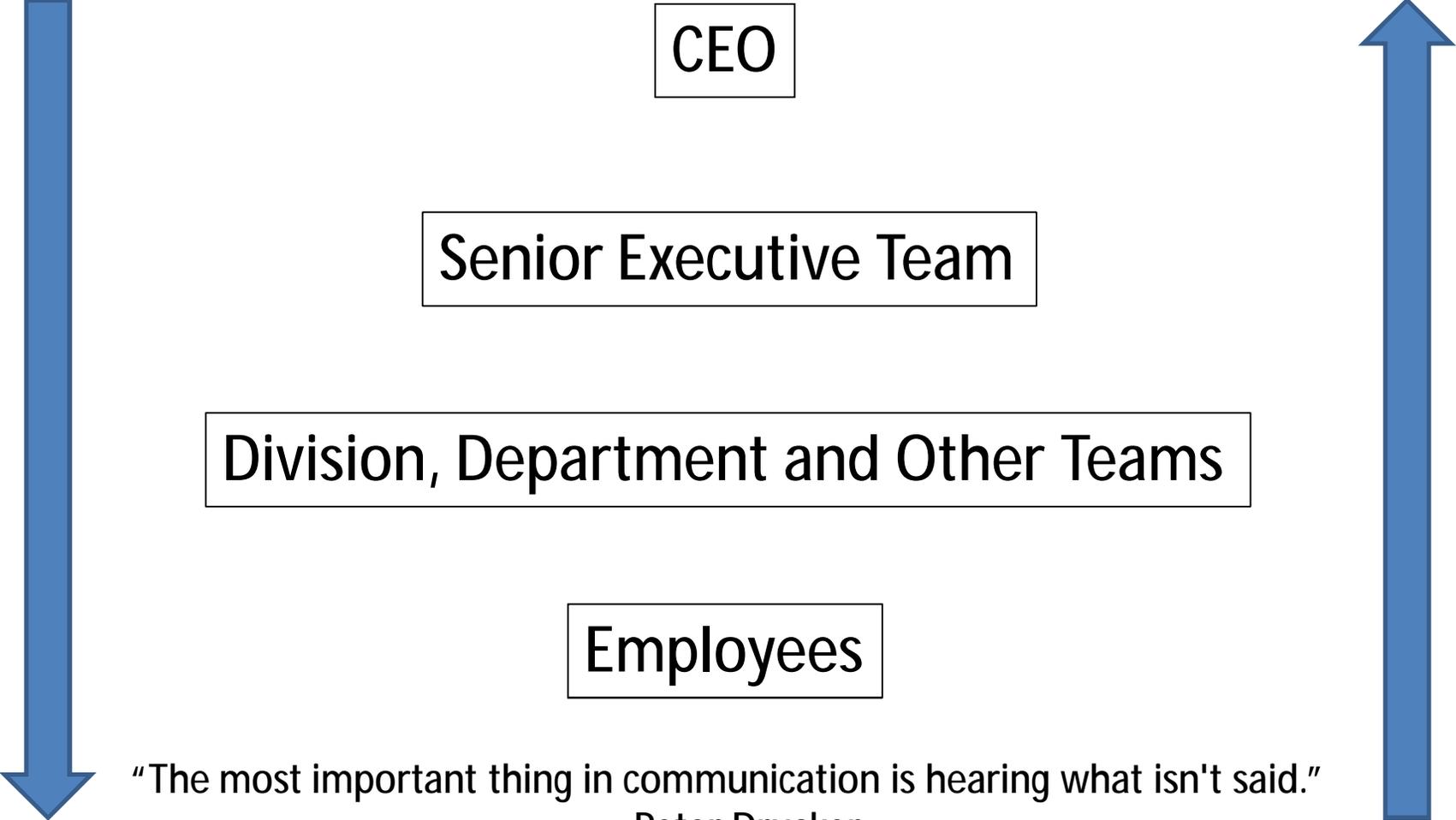
Source: Bite-Sized ERM, Bailey Jordan, Warren Stippich – Partners, Advisory Services, Grant Thornton LLP

[www.thinkstraighttalkstraight.com](http://www.thinkstraighttalkstraight.com)

# Features of a Good Communication Plan

- What goes down also goes up.
- Simple versus Complex – The K.I.S.S. Principle.
- Repetition, consistency, frequency.
- Adjust for differences in behavior, culture and generations.
- Remember “The 3 Tells”.
- Recognize the impact of emotions on communication.
- Vary the form of the message; recognize the difference in richness of each.

# Communicate Up and Down



The diagram illustrates a four-level organizational hierarchy. At the top is the 'CEO', followed by the 'Senior Executive Team', then 'Division, Department and Other Teams', and finally 'Employees' at the bottom. A large blue arrow on the left points downwards, indicating communication from top to bottom. A large blue arrow on the right points upwards, indicating communication from bottom to top.

CEO

Senior Executive Team

Division, Department and Other Teams

Employees

"The most important thing in communication is hearing what isn't said."  
-- Peter Drucker

[www.thinkstraighttalkstraight.com](http://www.thinkstraighttalkstraight.com)

# The Leader's Message

- What is risk management, why is it important, why is the company committed to risk management?
- Create awareness of identified, generic risks.
- Outline expectations.
- Recognize positive achievements in risk management; acknowledge mistakes and corrections.
- Encourage employee vigilance and reporting.
- Give direction about the nature and timing of communications that will be provided.
- Describe the consequences of failure.
- Everyone is responsible; no one is excluded.

# Senior Executive/Team Messages

- Acknowledge their role in the process.
- Communicate their expectations; reiterate the leader's message.
- Define accountabilities and systematic reporting.
- Reinforce the importance and value of risk management to the effectiveness and productivity of the group.
- Outline team and individual expectations.
- Encourage, recognize and reward feedback and success.
- Outline the consequences of failure – not the punitive, but the inefficiencies and ineffectiveness of procedural failure or breakdowns.
- Clarify, clarify, clarify.

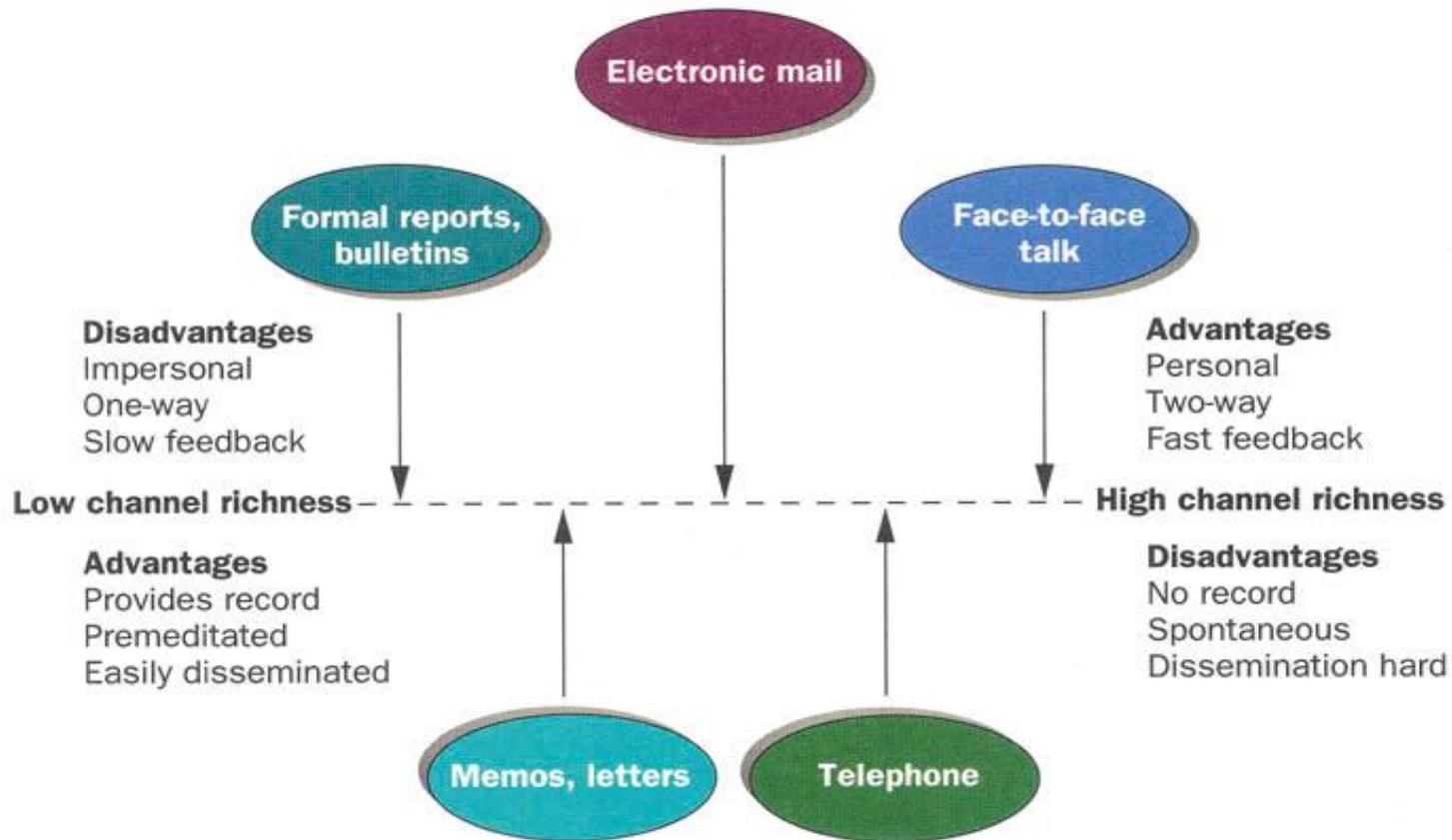
# Employees

- Understand their responsibilities and accountabilities.
- Understand their role in the process.
- Understand why risk management is important to their success.
- Recognize that they should question what is not clear to them.
- Challenge them to offer ideas and suggestions to improve the process.
- Encourage their feedback—in all directions.
- Acknowledge and reward their support.

# Forms of Communication



# Communication Richness



Source—Management, Richard L. Daft--2003

# Message Content

- What are the simple, direct and uncomplicated messages we wish to deliver about risk management?
- How is risk management defined? What are some examples of risk management that meets our expectations?
- Why is risk management of value to the business?
- Why is risk management important to individual employees?
- What are some risk management successes or failure stories?
- What expectations are there for successful risk management activities?
- Who is responsible and accountable for the risk management activities?

# Tips for Good Written Communication

- The 3 Tells
  - Tell them what you are going to tell them.
  - Tell them.
  - Tell them what you told them.
- Make use of executive summaries, pictures, tables, etc.
- K.I.S.S. -- Apply the fog index.

# The Gunning Fog Index

- Robert Gunning – American Businessman, 1952.
- Index Calculation--
  - Take a full passage of at least 100 words (do not omit any sentences).
  - Find the average sentence length (number of words/number of sentences).
  - Count words with three or more syllables (complex words), not including proper nouns (for example, Djibouti), familiar jargon or compound words, or common suffixes such as -es, -ed, or -ing as a syllable.
  - Calculate the percentage of complex words to total words (complex words/total words).
  - Add the average sentence length and the percentage of complex words.
  - Multiply the result by 0.4.
  - The result measures the level of difficulty and required grade-level reading skill.

Source: Wikipedia – Calculating the Gunning fog index.

# Examples

- Shakespeare's Hamlet soliloquy – 8
- Lincoln's Gettysburg Address – 9
- Declaration of Independence – 11
- Unqualified auditors' opinion – 16
- COSO – 19
- Auditors' report on internal controls – 23

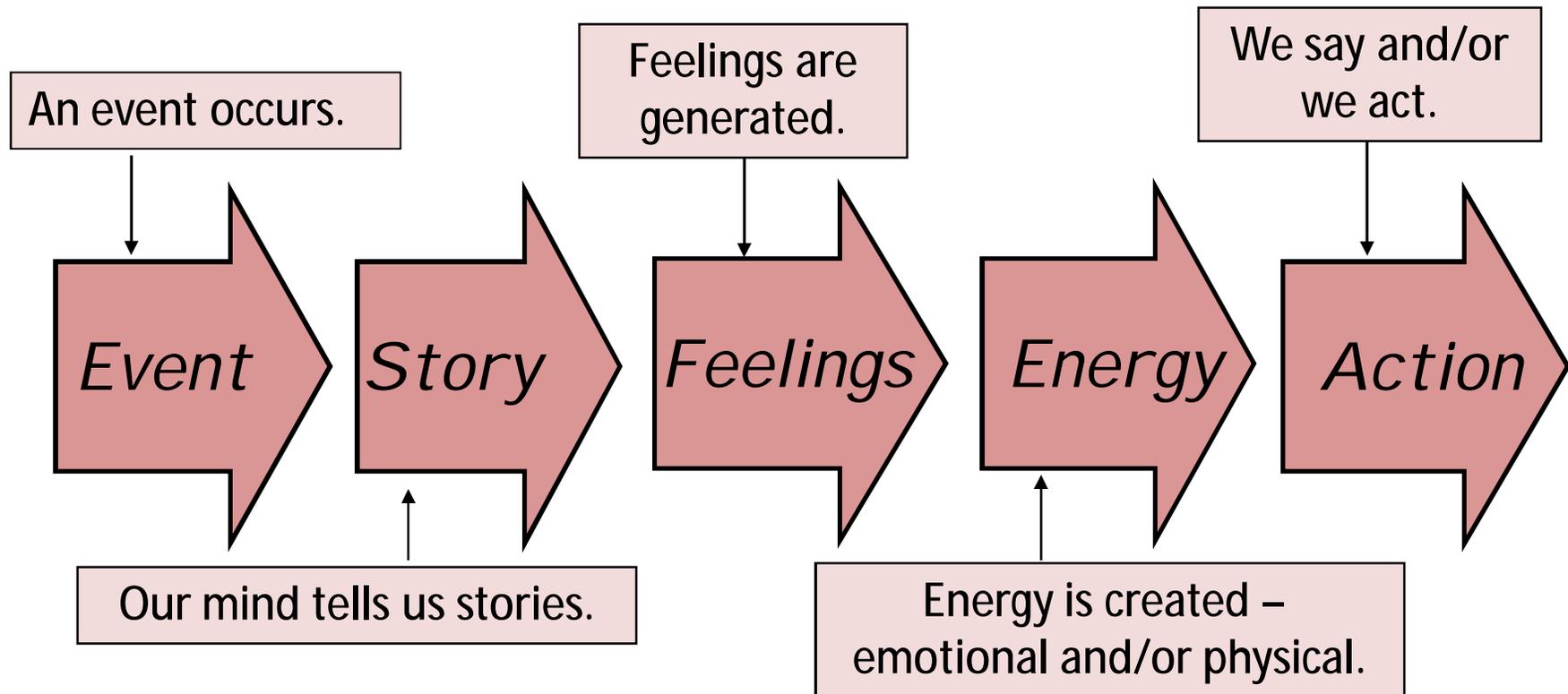
# Barriers to Effective Communication

- Send unclear, incomplete, or difficult to understand messages.
- Use an inappropriate medium.
- Fail to solicit feedback.
- Receive, but ignore.
- Use automated systems when the human element is needed (e.g., email or text vs. conversation).
- Allow noise that harms, or interferes with, the process.
- Use nonverbal facial expressions, body language, and styles of dress that are inconsistent with the spoken word.
- Hold biases, stereotypes, assumptions and judgments that can interfere with effective communication.
- Simple vs. complex -- too much fog.

# Communication and Emotions

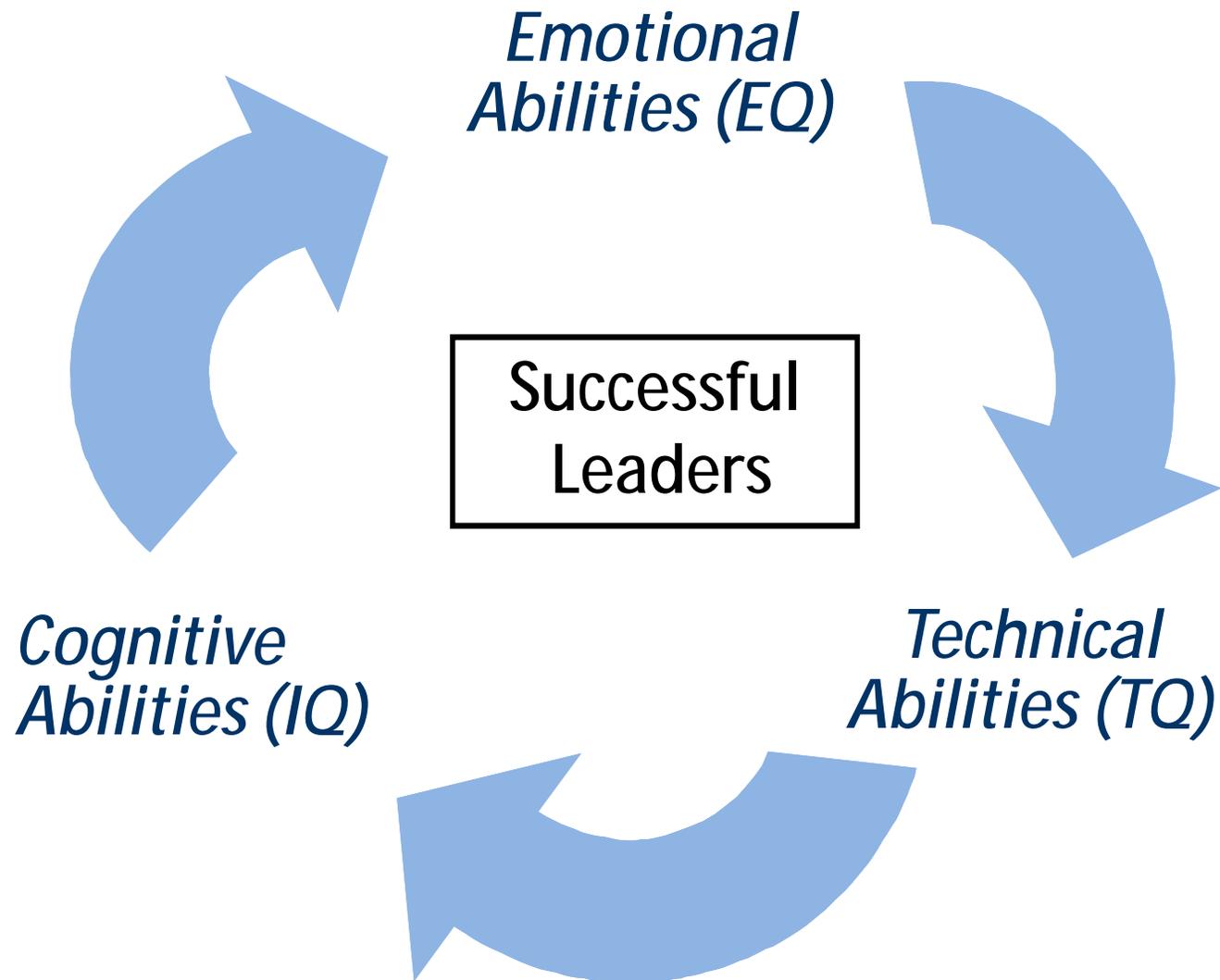


# We Feel Before We Act



Adapted from "Personal Best" by Tim Kight

# Workplace Intelligence Abilities



# Daniel Goleman's Framework of Emotional Intelligence Competencies

Self  
(Personal Competence)

Other  
(Social Competence)

## Self-Awareness

## Social Awareness

Recognition

- Emotional self-awareness
- Accurate self-assessment
- Self-confidence

- Empathy
- Service orientation
- Organizational awareness

## Self-Management

## Relationship Management

Regulation

- Emotional self-control
- Trustworthiness
- Conscientiousness
- Adaptability
- Achievement drive
- Initiative

- Developing others
- Influence
- Communication
- Conflict management
- Visionary leadership
- Catalyzing change
- Building bonds
- Teamwork and collaboration

# Emotions Influence Organizational Effectiveness in All Areas

- Recruitment, retention and development
- Commitment, morale and health
- Innovation
- New services development
- Teamwork
- Risk management
- Productivity
- Efficiency
- Process improvement
- Revenues
- Quality of service
- Cost containment
- Client loyalty
- Change management

# What Can You Do?

- Understand your emotions.
- Own your emotions.
- Manage your emotions.
- Understand the emotions of others.
- Help your team and others manage their emotions.
- Manage emotions within your organization—starting at the top.

# Don't Forget the People

“Organization doesn't really accomplish anything. Plans don't accomplish any either. Theories of management don't much matter. Endeavors succeed or fail because of the people involved. Only by attracting the best people will you accomplish great deeds.”

-- Colin Powell

# Understand Differences



Women and Men



Borders

D

i

Behavior Styles



Cultures

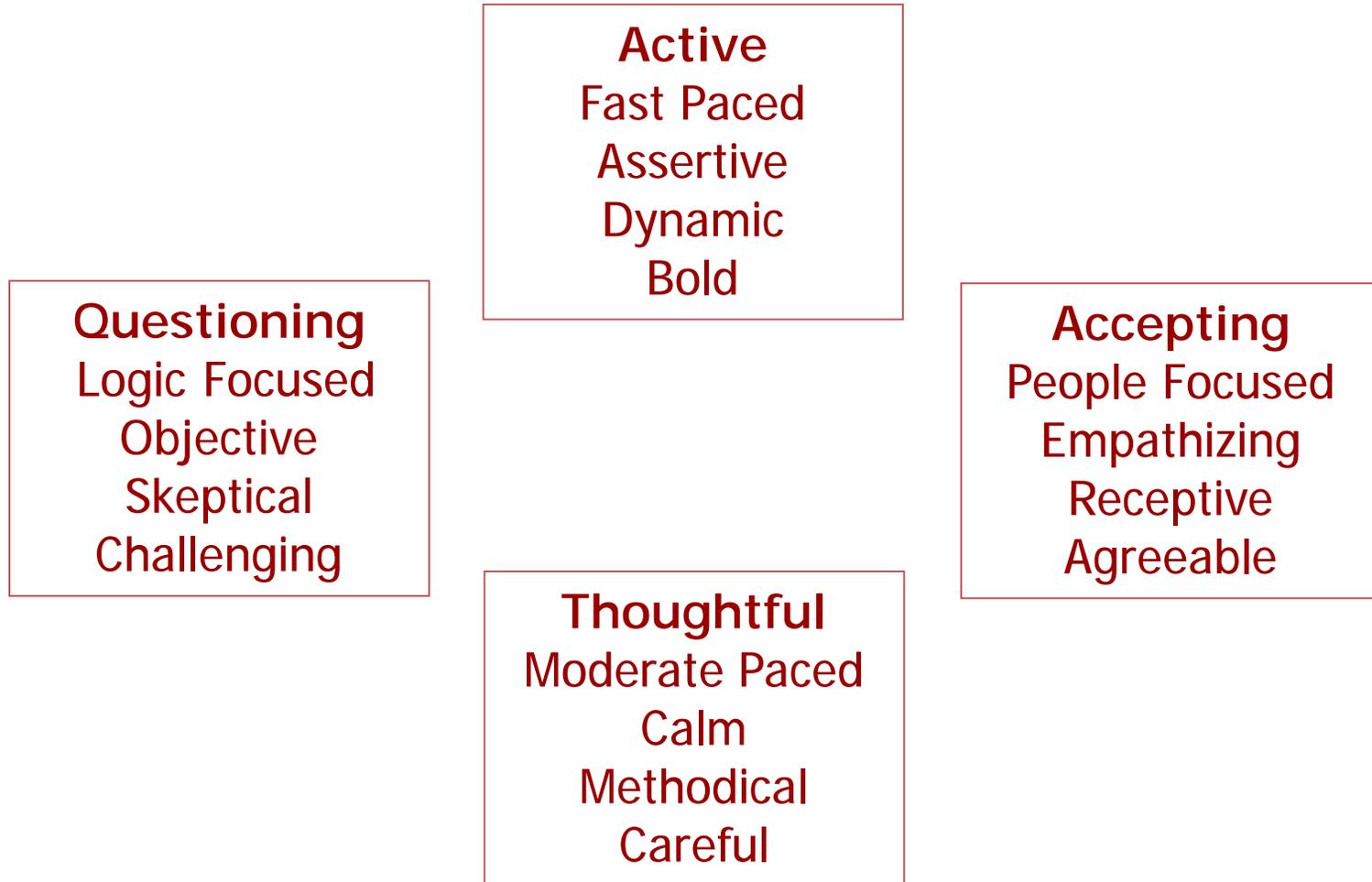
S

C



Generations

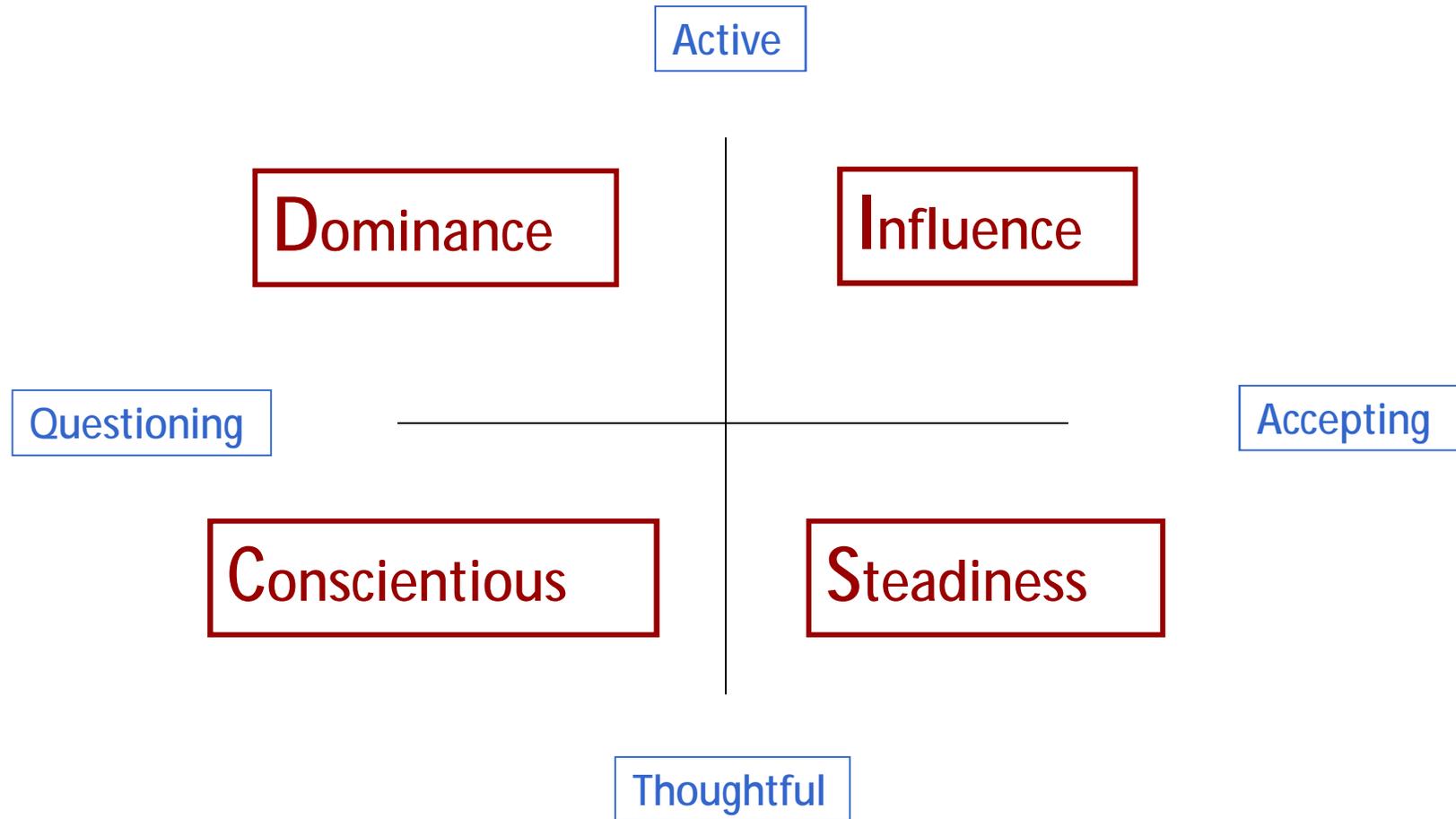
# Behavior Style Example – The DiSC® Model



Source: Everything DiSC® -- Inscape Publishing

[www.thinkstraighttalkstraight.com](http://www.thinkstraighttalkstraight.com)

# DiSC<sup>®</sup> Model



Source: Everything DiSC<sup>®</sup> -- Inscape Publishing

# Dominance Behavior Prefers To...

- Communicate briefly and to the point.
- Be autonomous.
- Have clarity about rules and expectations.
- Initiate rather than respond.
- See others demonstrate their own competence and independence.
- Stick to the topic.
- Eliminate time-wasters.
- Show little empathy, sensitivity or social interaction.

Source: Everything DiSC®--Inscape Publishing



# Influence Behavior Prefers To...

- Approach things informally.
- Be relaxed and sociable.
- Verbalize thoughts and feelings.
- Keep the conversation light.
- Persuade or influence others.
- Receive details in writing.
- Get public recognition for individual accomplishments.
- Make use of humor.



Source: Everything DiSC®--Inscape Publishing

# Steadiness Behavior Prefers To...

- Approach issues systematically.
  - Operate in a consistent and secure environment.
  - Be informed how things will be done.
  - Receive sincere appreciation.
  - Be recognized for their contribution and importance to the organization.
  - Adapt slowly to change.
- Have friendliness with colleagues and supervisors.
  - Minimize use of priorities and deadlines.



Source: Everything DiSC®—Inscape Publishing

# Conscientious Behavior Prefers To...

- Have clarity about rules and expectations.
- Work in an environment of dependability and loyalty.
- Communicate with tact and emotional reserve.
- Allow precedent to be a guide.
- Operate with precision and focus.
- Maintain high standards.
- Use measurement and quantification.
- Resist vague, general or ambiguous information.
- Respond rather than initiate.
- Work alone.



Source: Everything DiSC®--Inscape Publishing

# Behavior Style Affects...

- How we communicate -- how we speak, how we listen, how we write, how we read.
- How we solve problems.
- How we learn new things.
- How we lead and how we manage.
- How we work in teams.
- How we respond to crises.

# What Makes an Effective Leader?

- They ask, "What needs to be done?"
- They ask, "What is right for the enterprise?"
- They develop action plans.
- They take responsibility for decisions.
- They take responsibility for communicating.
- They focus on opportunities rather than problems.
- They run productive meetings.
- They think and say "we" rather than "I".
- They listen first, speak last.

Source: The Writings of Peter Drucker

"Leaders are people who do the right thing; managers are people who do things right." -- Warren G. Bennis

# Managers Think About How To...

- Operate day-to-day.
- Train staff for current responsibilities.
- Provide direction through controls.
- Deal with “technical” issues.
- Deliver day-to-day results.
- Operate in the short-term.
- Use information to facilitate operations.
- Relate to their customers as receivers of goods or services.
- Supervise/manage people.
- React to change.
- Use communication to fulfill responsibilities.
- Use authority.
- Demonstrate consistency.
- Meet performance expectations.
- React.
- Focus on things, outcomes, results and measurements.

Source: Adapted from Philip E. Flora, Vice President-Internal Audit, CAE—Texas Guaranteed (IIA Emerging Trends & Leading Practices Conference)

# Leaders Think About How To...

- Strategize.
- Develop staff skills for future.
- Lead by actions.
- Think more holistically.
- Deliver change over time.
- Take a long-term focus.
- Use information to shape continuous improvement.
- Treat customers as business partners and serve them.
- Mentor/coach people.
- Initiate change.
- Use communication to achieve business success.
- Use influence.
- Build creativity.
- Promote excellence.
- Be proactive.
- Focus on people, beliefs, behaviors and relationships.

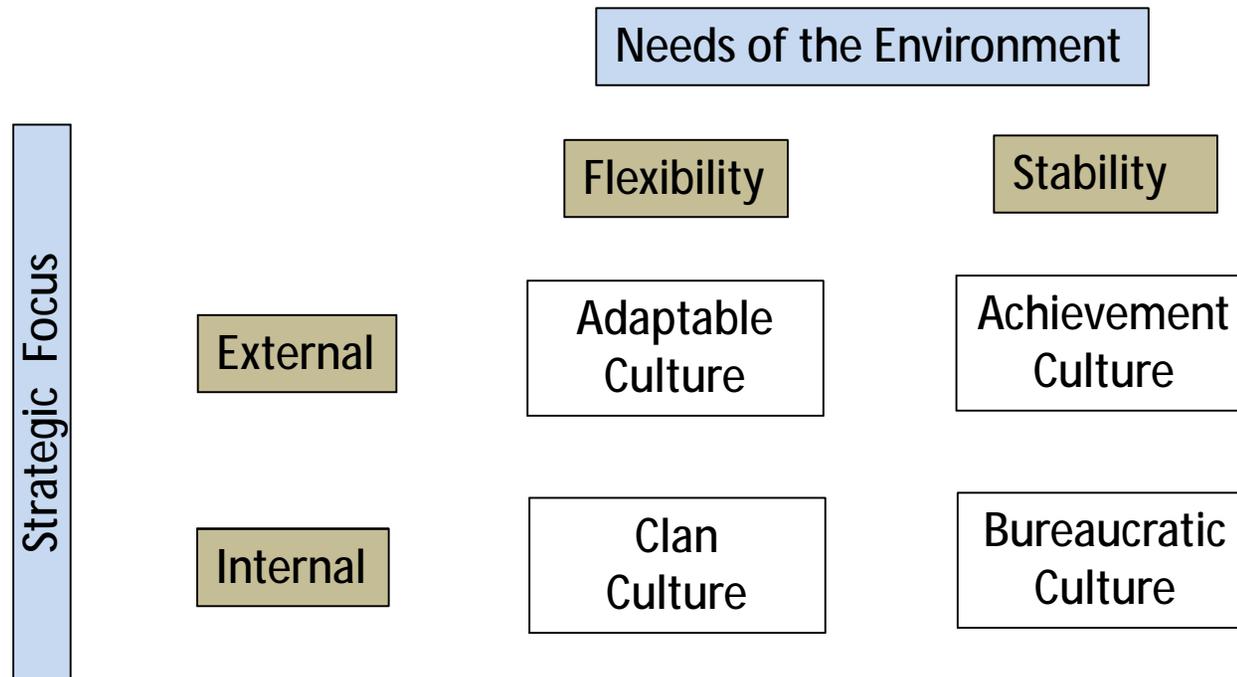
Source -- Adapted from Philip E. Flora, Vice President-Internal Audit, CAE—Texas Guaranteed (IIA Emerging Trends & Leading Practices Conference)

# Tips on Leadership from John Wooden

- Good Values Attract Good People
- Use the Most Powerful Four-Letter Word (Love)
- Call Yourself a Teacher
- Emotion is Your Enemy
- It Takes 10 Hands to Score a Basket
- Little Things Make Big Things Happen
- Make Each Day Your Masterpiece
- The Carrot is Mightier Than a Stick
- Make Greatness Attainable by All
- Seek Significant Change
- Don't Look at the Scoreboard
- Adversity is Your Asset

Source: John Wooden – “Wooden on Leadership”

# Understand Your Culture to Communicate Better



Source: Robert Daft – Management – DePaul Edition

# The Art (or Science) of Storytelling

- Spark action; deal with change; build best practices.
- Transmit values; preserve heritage.
- Foster collaboration or promote team development.
- Tame the grapevine.
- Share knowledge.
- Communicate who you are – Branding.
- Communicate who the firm is – Branding.
- Lead people into the future.



Source: Stephen Denning – The Leader's Guide to Storytelling/Mastering the Art and Discipline of Business Narrative

# In A Successful Risk Management Program...

- Employees clearly understand their roles, responsibilities, expectations and accountabilities – The Tone at the Bottom and in the Middle, not just at the Top.
- Communications are open; they flow upstream, downstream, across functions and across cultures.
- Risk management is not just “accounting’s” or “internal audit’s” or “the CRO’s” responsibility. It belongs to everyone.
- “The Tone” is communicated often and regularly.
- Results, good or bad, are communicated often and regularly.
- “Best practices” and “next practices” are communicated at all levels.
- “Gotcha” mentalities are forbidden.
- The process is continuous.
- The K.I.S.S. principle is regularly applied.
- Clarity is the operative word in all communications.
- Every employee owns their piece of the process.

# Be an Internal Audit Businessperson

- Understand the business.
- Build relationships with peers across the company.
- Own your portion of the company's vision and strategy.
- Give back to your profession.
- Look outside.
  - Financial Executives International
  - Financial Executives Networking Group
  - Success North Dallas
  - Association for Corporate Growth
  - Turnaround Management Association
  - Institute of Management Consultants
  - Association for Strategic Planning
  - SMU, NTSU, UTD

# Readings

- The 7 Habits of Highly Effective People and The 8th Habit – Steven Covey
- Leading Quietly – Joseph L. Badaracco, Jr.
- The 21 Irrefutable Laws of Leadership – John C. Maxwell
- The Leadership Secrets of Santa Claus – The Walk the Talk Company
- Monday Morning Leadership – David Cottrell
- Authentic Leadership – Bill George
- Lessons from the Top – Thomas J. Neff & James M. Citrin
- Leadership the Eleanor Roosevelt Way – Robin Gerber
- Leadership – Richard L. Hughes, Robert C. Ginnett, Gordon J. Curphy
- Jack – Jack Welch, John A. Byrne
- Leadership – Rudolph Giuliani
- The Carolina Way – Dean Smith, Gerald Bell
- Wooden on Leadership – John Wooden
- The Prince – Niccolo Machiavelli
- The Art of War – Sun Tzu
- Geeks & Geezers – Warren Bennis, Robert J. Thomas
- Leaders – Warren G. Bennis, Burt Nanus
- On Becoming a Leader: The Leadership Classic—Updated and Expanded – Warren G. Bennis
- Emotional Intelligence: Why It Can Matter More Than IQ – Daniel Goleman
- Primal Leadership – Daniel Goleman
- The Leadership Challenge – James M. Kouzes, Barry Z. Posner
- Good to Great – Jim Collins
- Built to Last – Jim Collins, Jerry Porras
- Execution – Larry Bossidy, Ram Charan
- Never Eat Alone – Keith Ferrazzi

# Thank You for Listening and Learning

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*We grow the leader in you.*