

# MANAGING RISKS IN A NEW WORLD

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SMEs need to move beyond traditional risk management that tends to focus on each risk separately, and take a holistic and coordinated approach that optimises risk management performance

**A**GAINST a backdrop of increasing regulation and continuing financial market volatility, small and medium-sized enterprises (SMEs) are faced with challenges such as rising labour costs and increasing competition. On top of that, increased protectionist measures taken by the world's top economies and the speed of technological changes are keeping SMEs owners awake at night.

SMEs need to move beyond traditional risk management that tends to focus on each risk separately, and often limits the focus to managing uncertainties around physical and financial assets.

Instead, a holistic and coordinated approach to risk management that is not fragmented into functions and/or departments, and organised with the intention of optimising risk management performance is required in this rapidly changing world.

## CHANGE AND EMERGING TRENDS

According to a KPMG survey, many chief executive officers (CEOs) globally believe that the next three years will be more critical for their business than the last 50 years. Changes will be driven by technology, new-age consumers and increasing interconnectedness of industries.

Additionally, new technologies are developed virtually every day and are released almost immediately. This means that rapid adoption and use of new technologies is happening ahead of the ability of SMEs to understand and respond to them. Industries such as manufacturing are facing the evolution of Industry 4.0 and the ideal of a "smart factory" supported by automation and data analytics.

For SMEs, new technology is a double-edged sword. While new technology brings new tools that they can use to improve their operations and the services that they provide to their customers, it also presents new risks. Companies may not be fully aware of their compliance obligations, which could leave them susceptible to fines, reputational damage and financial losses.

The advantages of good risk management are manifold: enhanced comprehensiveness of risks identified, reduced potential blind spots in the business and better forward-thinking and preparedness to manage risks in the long run.

For SMEs where investment of resources into risk management activities are often carefully considered, key stakeholders should be encouraged to think long term and embrace risk taking. Ultimately, risk management should be proactively implemented, rather than driven by events.

## RISK ELIMINATION OR OPTIMISATION?

Good risk management should never be about adding more layers of controls and processes in place without due consideration of costs and efficiency.

Risk management is not about eliminating risks but about risk optimisation. Companies that do not understand their risk profile and actively manage their risks may find themselves suffering from the effects subsequently.

There is still a tendency among SMEs to focus more on reducing and minimising risks. In a climate where many companies and even governments are driving and encouraging innovation, will managing only the undesirable impacts of risks and trends be enough to sustain long-term growth in a company?

Many of the most successful and fastest growing companies today thrive on innovation and take advantage of opportunities. This is where risk management can add further value to an organisation beyond preparedness and risk reduction.

For example, investing in an information technology (IT) platform to improve customer experience and interface may bring about benefits in terms of customer satisfaction and loyalty, but at the same time may expose the organisation to increased risks in terms of IT security and data confidentiality.

An effective risk management framework should thus seek to support the management in making informed decisions, balancing risks and opportunities when making key decisions. An effective risk management framework will provide key stakeholders with the right information on both risks and opportunities to support cost-benefit analysis, as well as to cover all angles when making investments or strategic decisions.

## RIDING THE TURBULENT WAVES

For many SMEs, risk management is practised in various forms within its day-to-day business activities, but most remain largely informal and unstructured. Companies should calibrate their risk management framework

according to their scale and nature of operations. There is no one-size-fits-all approach.

For United Oil, the company is increasingly exposed to more operational, market and credit risk with its expansion to other markets. With the support of Spring Singapore's Capability Development Grant, United Oil completed a review of its key operational areas.

The process included an analysis of the company's business processes for risk identification, a review of existing risk mitigation policies, as well as recommendations to address gaps in risk management and formulating a framework to address them.

Marrying innovation and risk management can also help companies pursue opportunities. Risk management can help foster a company's innovation agenda by revealing blind spots and areas of underinvestment that threaten a company's future.

As the saying goes, Rome was not built in a day. Resources should be allocated on a consistent basis to sustain and to mature the risk management practices within the organisation. SMEs may also choose to seek third-party professional help, where necessary, to seek independent perspectives on risks and risk management.

Proper implementation of good corporate governance and risk management frameworks may not necessarily ensure success of an organisation, but bad risk management and governance practices – especially poor financial management – have certainly been a common root cause for the downfall of many companies. ■

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