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Risk management, a key process of corporate governance: Analysis of the related effects on organisational behavior

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INTRODUCTION

Risk management has continued to assume an increasingly important role as emphasis is placed on the strategic value of corporate governance, considered the means to realizing business objectives while respecting the rights and expectations of stakeholders.

Beginning in the mid-90's, the activities involved in risk management and corporate governance converged to the point that having ample control over a firm's activities became synonymous with an adequate and structured risk management system. Also during that period, the techniques used in risk management, which had been historically limited to the identification of the risks to be mitigated through financial instruments, were substituted by not only more complete processes which distributed responsibility throughout an organisation, but also by more specific and complex control models (Power, 2004). Both academics and managers believe in increasing numbers that risk management composes one of the most fundamental components of a management system designed to create value.

The relevance and importance of the relationships that create effective risk management and internal control systems can be identified through a study of the principles contained within the Codes of Conduct issued by various States as well as an analysis of the regulatory mechanisms dictating the rules of corporate governance¹. When considering the best practices of governance activities, these mechanisms consider the evaluation of risk as one of the most integral components of an effective internal control system. With that in mind, the link between corporate governance, internal control systems and risk management is evident and manifests itself not as an operational management technique, but instead as an important characteristic of a firm's governance, associated with the constant development of management systems and the organizational dimension (Hunt, 2003).

Effective risk management, achieved in part through appropriately structured internal control systems, is a vital component of an efficient model of governance for various reasons. Firstly, reintroducing

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an important concept in strategic management, in unstable and turbulent business environments, the success of a firm is based on its ability to adopt a strategy with an acceptable risk-reward profile and to guarantee effective risk management when implementing its business strategy (Damodaran, 2008). In this implementation phase, it is essential to adopt controls that effectively reduce the probability of damage and readily identify the presence of additional risk factors in the event that the current risk profile is consistent with that requested by top management (D'Onza, 2008). Also important in the context of governance, is that effective risk management permits governing bodies to assume the responsibility entrusted to them through codes of conduct (Beretta, 2004). Furthermore, a strain on the relationship between the management of a firm and its stakeholders has created increasingly difficult business contexts, resulting in the need to implement a system of rules and mechanisms that aims not to constrict the actions of a firm's management but instead attempts to pursue the firm's objectives while respecting certain standards. This offers at the same time references for a subsequent review of behaviours and results obtained.

Therefore, the internal control system, seen as an effective and efficient means to manage a firm's risks, can be defined as a corporate governance device used by top management to create value with reasonable security, based on the foundation that although the strategies and guides are important, so are the limits imposed on the actions of managers and staff. The implementation of an internal control system introduces philosophies and risk management instruments that are not related solely to a firm's strategic plan and its intrinsic value in a competitive environment. At the same time, the system of internal controls sheds light on the behaviours of the firm's individuals and groups and makes assumptions regarding limited rationality and potential opportunism, with the objective of setting forth the necessary controls to prevent, identify and correct errors and fraudulent behaviours (Paletta, 2008).

The wave of corporate scandals that attracted worldwide attention has played a part in increasing top management's awareness of the importance of the adoption of an internal controls system aimed at ensuring a firm's healthy operation, consistent with predefined objectives. There have been numerous contributions from the academic world regarding this subject, attempting to understand the causes and solutions to poor governance. There has also been various work performed by professional associations (above all, COSO in the United States) and study groups engaged in defining the best practices in the field of corporate governance. As a result, there has been an evolution and sharing of frameworks designed to define the foundations on which the planning and implementing of a firm's risk management system should be based (COSO Report, ERM, COBIT, COCO and ISO 9000).

The implementation of a risk management system requires the defining of a set of rules, procedures and organisational structures designed, through a robust system for the identification, measuring, management and monitoring of primary risks, to ensure the efficient operation of a firm, in line with set objectives. This process is performed by a firm's board of directors, management and other players within a firm who implement a managerial system to ensure that the firm's core values and corporate policies are consistently transformed into organisational decisions. Those decisions are based above all on the composition of the organizational structure, given on one hand by the designation of authority

and responsibility, the articulation of roles and job descriptions, the separation of duties and the definition of appropriate levels of authorisation and access in the activities performed; on the other hand, by the structuring of the process for the documentation of work flows as well as physical controls on assets and transactions.

Firms need to confront a number of risks while attempting to achieve their strategy and reach their objectives and it is therefore necessary to structure an effective process for understanding and managing risks. There has been extensive literature analysing the technical aspects of the implementation of risk management, however few have focused on the emerging challenges facing firms today. It is evident that the definition of a set of guidelines and procedures is not the only condition necessary to guarantee the achieving of risk management objectives and if the human element is not taken into account, or if the operating policies related to the risk management activities are not considered, the likely outcome is negative performance misaligned with pre-established goals.

This chapter has two objectives: First, to examine the possible effects of the implementation of ERM on organisational behaviour; second, to use change management models to identify aspects on which management needs to focus in order to implement an effective system of risk management.

IMPLEMENTING ERM AND ORGANIZATIONAL CHANGE: A LITERATURE REVIEW

The process of organisational change is a phenomenon that has existed throughout time in firms of all different types (Burnes, 2004; Todnem By, 2005; Burke, 2011). It is generally accepted that the organisational changes introduced with the implementation of ERM represent one of the major challenges for today's firms and it requires the cultivating of specific skills and the development of the necessary change management programs. Although no official statistics exist, researchers such as Beer and Nohria (2000a, 2000b) and Burke and Biggart (1997) estimate that roughly two-thirds of change management projects fail, while Burnes (2004) suggests that the percentage could be even higher. The root cause of the inability of many firms to achieve the predetermined change objectives are often due to errors in execution rather than a defective initial plan for these programs (Klein and Sorra, 1996; Kotter, 1995, 1996; Schein, 1987, 1999). Specifically, an increased number of researchers suppose that change initiatives fail because many leaders underestimate the vital role of the individual in the process of change (Armenakis, Harris, and Mossholder, 1993; George & Jones, 2001; Greenhalgh, Robert, Macfarlane, Bate, and Kyriakidou, 2004; Hall & hord, 1987; Isabella, 1990; Lau & Woodman, 1995). Furthermore, some researchers believe that organisational change is realized only half-way by the implementation of the program and successful, sustainable, medium-long term change is only achieved when individuals appropriately adapt their job related behaviours (Weeks, Roberts, Chonko, & Jones, 2004; Jones, Jimmieson & Griffiths, 2005; Meyer, Srinivas, Lal & Topolnytsky, 2007). On the basis of this reasoning, it can be concluded that employees are the focal point of organisational change (Porrás & Robertson, 1992; Tetenbaum, 1998).

That being said, the quantity and variety of activities is considerable, given that the ERM framework suggests that the identification, assessment and managing of risks is performed through the following performance measures:

Strategic objectives: Linking a firm's risk management assessment to its strategic objectives is paramount, and it is from these objectives that the risk factors are directly identified;

Operations: The framework suggests that risk assessment includes identifying and evaluating the risk factors that could compromise reaching operating efficiency and effectiveness objectives;

Financial reporting: The relevance of a firm's financial reporting system, including the presentation to third parties (external reporting) and the support provided to management systems (internal reporting), is recognised as financial reporting systems not only fulfil their initial and primary objective of ensuring the reliability of information included within the financial statements, but also extend into areas of reporting that are not strictly financial-economic. The increasing importance of non-financial information requires additional attention in the identification and evaluation of risk factors, including those that could compromise the quality of financial reporting information.

Compliance: The framework also proposes that attention be placed on the identification of risk factors that could potentially compromise a firm's conformity with regulations, standards and laws.

The implementation of measures to carry out the above described activities inevitably produces organisational change that assumes different connotations based on the individual firm's environment. Organisational change is significantly complex and is influenced by multi-dimensional factors. It is an all-encompassing process that includes various intersecting aspects that reflect upon organisational behaviour. These aspects present the need for a privileged perspective from which to analyse the overall complexity. Nevertheless, having acknowledged the existence of certain general aspects, it remains particularly important to focus on characteristics that influence the behaviours of the individuals within a firm, as each employee could either promote or hinder the achievement of objectives, including the implementation of an integrated risk management system (Rubino & Vitolla, 2012).

THE EFFECTS ON ORGANIZATIONAL BEHAVIOR

Therefore, although the ERM framework introduces important benefits to the firm, there are also limitations that do not guarantee management complete security in the pursuit of the firm's objectives. Included within the limitations of ERM are factors related to human error, such as possible errors in judgement, involuntary mistakes and the possibility that controls be overridden by members of the firm for personal gain, also known as *moral hazard*. Furthermore, even with ERM, it is impossible to adequately protect against all the different types of risk to which the firm is exposed, above all when the risk-benefit ratio becomes onerous.

The primary organisational difficulties encountered during the implementation of ERM relate to elements internal to a firm, specifically corporate culture, a firm's risk management philosophy, the willingness of a firm's decision makers to assume risk, the actions and beliefs of top management, the

commitment to acquiring talent in the employee hiring process, the development and management of human resources and finally the choice of organisational structure and the criteria on which authority and responsibility are distributed.

A corporate culture that places emphasis on risk management is an important component in the overall process. Creating a risk management culture requires that management formulate risk management policies, communicate those policies to employees and act in accordance with the structure set in place. Many firms have experienced success in the implementation of the first two phases of the process while achieving the third has presented itself as a challenge (Cendrowski and Mair, 2009). Any type of business context runs the risk of obtaining negative results if employees do not enact risk management policies in harmony. Also, it is unlikely that risks are properly mitigated if a firm lacks an adequate process for analysis and communication (Cendrowski and Mair, 2009). A firm's internal environment constitutes a foundation on which risk management and the monitoring of controls is built. The nucleus of every firm is composed of its working environment and its employees and their individual integrity, values and skills. The "tone at the top" has an influence on these aspects (Bruinsma, 2009), above all related to the implementation of risk management policies.

A firm's risk management philosophy summarises its shared beliefs and outlines the guidelines adopted by the firm in managing risk in different scenarios and environments. It constitutes a key component of corporate culture and influences the cognitive processes used in the identification and evaluation of risks as well as the decision-making patterns related to risk management. A prerequisite for an effective ERM system is that, independent of the nature of a firm's risk management philosophy, it is clearly communicated, adequately diffused and comprised within a firm's internal structure, in such a way to avoid incongruence in cognitive and decision-making processes.

A firm's propensity to accept risk (risk appetite) influences the modalities of risk management by affecting the related decision-making processes. An essential characteristic of an effective ERM system is that a firm's risk appetite, congruent with the risk profile discussed and agreed with top management and stakeholders, is adequately and appropriately reflected in the firm's strategic planning. Behaviour of top management, extending beyond just their declarations of commitment, can attest to a firm's positioning not only regarding risk management but also related to ethical values and integrity. A prerequisite for an effective ERM system is that a firm's board of directors:

- possess the skills necessary to address the risk management process, to monitor the implementation by management and to intervene when necessary to avoid significant misalignments with the risk profile agreed with stakeholders as well as to avoid any significant damage to the firm;
- is organised in a way to be able to effectively lead and control, an example being an adequate structure and composition (of independent and non-independent directors) of the committees through which the board operates.

Having established that the positive example set by top management relates particularly to ethical values, it follows that top management can obtain support through an effective mechanism to incentivise desired behaviour and condemn prohibited actions through a system supporting the communication of violations discovered at the operating level of a firm if and when they occur.

The commitment to acquiring talent in the employee hiring process and the development and management of human resources reflect the importance a firm places on the assumption and retention of resources that perform the operational activities consistent with the defined level of risk control. A firm's definition of its standard of performance, enacted through human resource management, is a reference point from which to evaluate the level of control exercised over the firm's risk management policies.

On one hand, a firm's choice of organisational structure defines the levels of authority (to which responsibilities and levels of authorisation are associated) which guide the extent of decision-making autonomy that employees are afforded when confronted with situations potentially heralding risks or when facing risks themselves. On the other hand, the choice of organisational structure also defines reporting channels within a firm, through which communication is effected between hierarchical levels and through which the level of decision-making autonomy is conveyed to individual operators. A prerequisite of an effective ERM system is not only that the hierarchical dependence and the responsibilities within a firm are properly defined and clearly communicated in order to avoid overlap or decision vacuums that could lead to risks or hinder effective management, but also that the reporting channels within a firm support internal communications.

In order to support new competitive environments and the implementation of ERM, firms have responded with changes to the organisational scheme by promoting new mechanisms for coordination and control. Oftentimes, this has led to the streamlining of organisational procedures in favour of team structures and informal coordination. This reduction of hierarchical dynamics and investment in organisational solutions suggesting lateral coordination has transformed many firms into complex inter-organisational networks in which managers are advised to obtain support from others to reach objectives and vice versa, but not always within clearly defined lines of responsibility. In a decentralised and streamlined firm – designed to promote diffused entrepreneurship, organisational learning and a robust risk management system – a dangerous triangle can result between pressure, opportunism and justification. Pressure to achieve results derives from the assignment of ambitious objectives designed to challenge employees, create motivation and continually press towards risk management objectives (Simons, 1995).

Opportunism arises from the access to a firm's resources and the wide range of manoeuvrability afforded to individuals to accommodate to the dynamic environment. The more stringent the controls, the greater the chance that employees take shortcuts or use a firm's property when not authorised to do so. Pressure and opportunism are related in various ways. First, an elevated pressure on achieving results, combined with strict control over resources, manifests in potential opportunism through the fact that the combination increases the temptation of individuals to override security levels or misrepresent information to reach objectives or incentives (Morris, Schindehutte and Allen, 2006). The mere fact that individuals may find themselves in this situation does not automatically imply that they will be tempted to act incorrectly or illegally; a lot depends on the level of justification that the reality in which they operate creates with respect to that behaviour. If employees can convince themselves that the incorrect behaviour is somehow justifiable within the organisational rules and standards, then the firm's control is not effective. That not only applies to the firm that does nothing to dissuade or correct

illegal or unethical behaviours, but also the firm whose structure of rules and standards promotes what has been called the ethics of intentions. If good intentions are considered to carry value, independent of the consequences of those actions, it can be concluded that the ends justify the means. The firm, in the context of an autonomous entity, is protected against these scenarios by assuming a clear organisational policy against justification thinking, in other words is able to effectively communicate prohibited behaviour and ensure that the policy is respected, eliminating any potential misunderstandings regarding immoral or illicit behaviours. A firm is able to mitigate the risks associated with a high-pressure environment with an increased chance of opportunism by ensuring that the system of internal controls in place is a clear and consistent disciplinary system that does not leave room for justifications.

Another element that influences the system of risk management is a potential misalignment between authority and responsibility which, according to a well-known organisational principle, should coincide. Authority is fundamentally based on the way in which the decision-making privileges are distributed within a firm and also influences the degree of opportunities. Simons (1995) defines the extent of responsibility as a group of trade-offs that influence the performance measures used to evaluate the results achieved by a manager. The level of responsibility determines the amount of pressure on a manager's performance. If an employee is entrusted with a large amount of responsibility, many variables affecting performance must be taken into consideration. To that effect, the firm is increasing the pressure on that manager because they must pay attention to, come into contact with and monitor a large number of resources, both internal and external to a firm. If together with a high level of responsibility, the manager is also afforded extensive control over resources, then authority and responsibility coincide given that manager to whom responsibility has been assigned is placed in the conditions to exercise a hierarchical power over the resources that assist them in reaching their objectives. On the other hand, if the responsibility assigned is greater than the authority entrusted then one of two situations can arise: The gap is wide enough that the frustration inhibits the manager from performing as expected; or the gap is not very wide that managers are forced outside of their hierarchical sphere of control and search elsewhere in the firm for support. In this second case, managers are required to be entrepreneurial, in other words creative, flexible, focused on problems and therefore the innovation of effective solutions and developing relationships with other managers who have influence over resources but who are dedicated to reaching their own objectives (Stevenson and Jarillo, 1990).

Top management's goal is to understand the appropriate level of risk within which strategic positioning and development should operate, to avoid exposing the firm to unnecessary risk. The degree of risk does not only depend on the intrinsic risk of strategic decisions, but is also influenced by the organisational environment in which a firm's strategy is implemented.

Influence on a firm's risk management system is exercised also by the organisational context, which could increase or decrease the amount of risk depending on two orders set forth by top management. If on the one hand, an emphasis is placed on creative and entrepreneurial behaviours to support the desired strategies, then on the other hand there needs to be a system in place to limit those behaviours, a braking mechanisms that establishes limits within a firm's to support sustainable growth. Top management guides this way of thinking through the definition of the objectives and strategies. In order to

align the decisions and actions of managers to a firm's objectives, top management uses the processes of budgeting, measuring and evaluating results to which incentives, both monetary and otherwise, are attached in order to motivate individuals. Half of the internal controls and risk management systems are provided by a series of brakes imposed by top management, a system used to recognise the risks to avoid and to eliminate any possibility of justification of behaviours that could expose the firm to undesirable degrees of risk (Simons, 2000). To that effect a regulation of the firms systems is enacted, through a mix of inhibitors, incentives and promoters to position the firm at a level of risk deemed acceptable. How powerful the braking system must be, as well as the way in which the limits operate, depends on the various factors that both exert pressure on organisational behaviour and increase the level of risk. According to Simons (2000), it is possible to design an algorithm to calculate a firm's risk exposure, determined by three factors that exercise pressure on organisational behaviours:

- firms that pursue growth objectives can create pressure on organisational behaviour due to particularly taxing objectives, the inexperience of key personnel and the rate at which the firm expands;
- the firm's culture, determined by a firm's evolution, the sector in which it operates and the management style of the directors and top management, can increase pressure by encouraging the adoption of entrepreneurial risks or the fostering of internal competitiveness;
- information management can generate organisational pressure through the quality, nature and speed of information processing, gaps in the system used to measure performance and the decentralisation of a firm's decision-making process.

Pressure on organisational behaviour increases the probability of errors, which result in inefficiencies, a decrease in quality, losses in the value of a firm's property and unreliable information that could all have a negative effect on a firm's reputation. The organisational environment could deteriorate to the extent that falsifications and financial fraud occur.

A REFERENCE MODEL TO IMPLEMENT ERM

The implementation of ERM is a complex process that requires various disciplines to coordinate in analysing the processes of change: Economics, business strategy, business organisation, accounting, physiology and sociology, etc. Nevertheless, it is possible to establish certain guidelines related to potential affects that this implementation has on organisational behaviour.

Managers invest time and resources in ensuring that the changes required by ERM implementation are effectively set forth, however few experience the results they were hoping for. Reasons for this lack of success, as touched on in the previous section, are due to a lack of experience in managing the changes that lead to errors in the implementation phase. There has been literature proposing various change management models designed to support and guide management through the transformation. Using the analysis of the models developed by Kurt Lewin (1951) and Kotter (1995), it is possible to identify certain elements which require additional attention from management in the effective implementation of a risk management system.

According to Lewin, the transformation is a complex process composed of various phases (Unfreezing, Transformation and Refreezing). These phases oftentimes overlap to coincide in very short time frames, but remaining distinct concepts. Kotter, on the hand, describes a process based on eight actions guiding the change. In this model, leadership responsible for the changes begins by establishing a sense of urgency (first action) and achieves success when the change itself is integrated into the firm's affairs (eighth action). At the completion of the process, it is requested that the leader coordinate and devise the methods by which the transformations will be assimilated into the firm, in such a way that the change can be fully learned. Beginning with an examination of Lewin's model, the phases of which also exemplify the eight actions proposed by Kotter's model³, the elements requiring additional attention from management in the implementation of the ERM are set forth in the following.

Based on the terminology used by Lewin, to achieve effective change within a firm, at least three phases are necessary:

1. Unfreezing;
2. Transformation;
3. Refreezing

The unfreezing of an existing system refers to the process of creating motivation and willingness within a firm to change the status quo. In this phase it is important that a firm implementing ERM recognise the need for different management and favour a future oriented towards innovation as opposed to the status quo. It also needs to recognise that a resistance to change, by assuming personal strategies against the change process, will result in severe damage to the firm. Generally, this process needs to be introduced by an individual who is close to a firm's top management and identifies the need for the change brought about by the introduction of ERM. Also in this phase, the opportunities brought about by the change are communicated to the various levels within a firm with the goal of instilling urgency to abandon the old paradigms in exchange for the new. However, it is important to remember that the fact that change is promoted does not alone imply it will be realised. The "unfreezing" phase requires that management:

- create and diffuse the awareness that change is needed;
- create an environment suited for change;
- vary the forces acting on the firm's individuals in such a way to create an equilibrium to motivate the change;
- exercise pressure to encourage modified behaviours;
- enact actions to reduce resistance.

The errors to avoid in this phase fall into two categories:

- The absence of a clear vision for the future and the lack of a communication process. The objectives and defined activities related to the system of risk management need to be clear. The absence of a map of a firm's values that connects its vision and mission statement to risk management choices reduces the impact of ERM implementation. A firm's objectives - the values which

support its policies and its general direction - should be clearly communicated and illustrated to all levels within a firm. One of the channels that can be used is a firm's code of conduct (or ethical code), which diffuses the firm's shared values and communicates employees' responsibilities and limits within the context of the firm. The development of an effective vision for change relies heavily on communication.

- The inability to instil urgency and the absence of a coalition to guide the change. Establishing a sense of urgency ensures the help of human resources necessary for cooperation and involvement. At the same time, instituting a coalition, composed of key individuals in a firm, allows the sharing of common goals. The coalition must consist of various established experts, whose reputation can contribute to the credibility of the coalition and the overall process. To that effect, it is also important to establish the figure of Chief Risk Officer.

Regarding the second phase (Transformation), after having established a group with the necessary skills and power to promote the process, it is necessary to transform the vision for change into a strategy for achieving results. That can be facilitated through two different mechanisms: Identification of a role model to draw reference from or access to a context that offers opportunity for confrontation and the ability to explore new possibilities. The latter is usually considered a second alternative, used only when the possibility of quickly identifying an existing role model does not exist. The Transformation phase requires that management:

- modify the extent and the importance of the forces that defined the initial situation;
- provide a specific direction for the change;
- develop new methods and processes for learning in light of the the new attitudes and behaviours.

This phase involves the transition from planning to performing the change implementation activities; the cooperation of employees and the establishing of teams to determine what to change and what to retain is essential. Leaders work to establish a united group to guarantee the involvement of all facets of a firm. The promoters of change may be asked to learn or invent new instruments or techniques, to create a formal program of activities related to the change objectives and the corresponding results indicators. Errors to avoid during this phase include not removing or solving the conflicts and obstacles to the changes required by ERM, as well as focusing on short-term goals and not establishing objectives for the medium-long term. In this phase it is also imperative to establish empowerment policies and formative activities in such a way to render a firm's management ready for their new roles.

Finally, changes become permanent through the refreezing process. Refreezing is defined as the process of entrenching the new knowledge into the interior psyche of a firm's individuals and their business relationships. In this phase the process is consolidated ensuring that the changes are institutionalised and crystallised into a new organisational culture. This phase requires that management:

- reinforce the transformations effected;
- stabilize the firm's new environment;
- employ initiatives and actions that facilitate the integration and assimilation of the changes in the firm's individuals.

In this phase it is important not to declare victory too early or inundate individuals with too many changes in narrow time frames. It is suggested to first consolidate short-term results before proceeding to the next series of changes. In order to motivate individuals towards the vision for change, it is important to quickly achieve results (in the short term) and it is advisable that those results are characterized by being: visible by the greatest number of people; lacking in ambiguity in order to promote sharing to the greatest extent; and rewards and recognition that motivate individuals during the transformation process. The firm's short-term goals are important in that they serve as evidence that the eventual objectives to be achieved are starting to take shape as a result of individual efforts. This increases motivation and benefits subsequent actions. Finally, integrating the transformation into the organizational culture requires consolidating the new methods, instruments and concepts introduced.

CONCLUSIONS

As illustrated in this chapter, it is evident that a multitude of analysis exists regarding the process of ERM implementation. The analysis performed focuses on examining the main effects of this implementation on organisational behaviour and the identification of certain issues that require additional attention from management. The two change management models examined (Lewin, 1951 and Kotter, 1995) were used to analyse the effect of ERM on organisational behaviour. This work, theoretical in nature, offers interesting references for future empirical research projects which, for example, might investigate whether the above-described change management models actually result in an improvement in the implementation of a new system for risk management. Furthermore, it might be interesting to analyse the effects of a firm's size and organisational culture on both its ability to manage risk and the efficiency of the change management models.

The attention placed on organisational behaviour suggested that there are certain limits to traditional risk management implementation frameworks. Models such as COSO and ERM represent necessary instruments but are not sufficient to ensure an adequate implementation of systems for internal control and risk management. Many times the excessive focus on defining rules and developing the process pushes the emerging problems facing many firms to the backburner. The introduction of procedures and the segregation of duties would be futile if they did not also take into consideration the other elements inherent in the behaviours of the individuals in a firm.

From the analysis performed, it can be concluded that there are certain instruments that, if implemented correctly, can effectively support the implementation of a risk management system. Cooperation and sharing are without doubt two strategic elements that assist a firm's governance. To share and render clear the organisational context is the strongest possible action a firm can take towards corporate governance, in that it allows all a firm's players the same lens through which decisions are processed, actions are prioritised and the dynamics of risk management are understood. The development of the Control Risk Self Assessment (CRSA) process represents a clear example of the now vast awareness of the centrality of the individual, the importance of listening and ensuring their full involvement in the assessment of risks and the subsequent formulation of mitigating action. Furthermore, the analysis

of the implementation of a risk management process confirms that there exist important levers in the process for achieving change, such as the environment in which the firm operates, the organisational culture, the structure and the process, management and their capabilities and the empowerment of the group and building.

The most important lesson that can be learned from the recent corporate scandals is that the worth of a business model requires an overall appraisal which combines intrinsically related aspects such as competitiveness, earning power and business ethics. The equilibrium between these three dimensions offers foresight and sustainability to business development. Therefore, the most effective way to relate entrepreneurial values and ethics is management's awareness that internal controls and risk management do not represent functions that are isolated from other management processes. They do not relate exclusively to the structures or bodies engaged in verification, such as internal or external auditors, but they are an integral component of the managerial system and constitute a primary responsibility of operational managers. Management needs to contribute towards the protection of internal controls and risk management and provide the necessary leadership for the implementation of the related systems. A firm's management is required to increase the range of their professional skill set. Besides technical competency, specific profession skills and traditional managerial requirements of planning, organisation, leadership and management control, managers need to demonstrate a consolidated understanding of internal controls, including those controls over the accounting and administrative functions to ensure the reliability of financial reporting figures. Those responsibilities, which at one point were considered exclusive to accounting have become common ground with implications on recruitment and management incentives.

NOTES

1. This paper is the result of two authors' common reflections on the subject. Nevertheless, so as to correctly identify the contribution made by them, sections 1, 4 and 5 were edited by Michele Rubino, while sections 2 and 3 were edited by Filippo Vitolla.
2. By way of example, the following sets forth various mentions in risk management literature: In the Turnbull Report, it is stated that "Internal control has as its principle aim the management of risks". The Combined Code, on the other hand, suggests a strict relationship between a system of internal control and the management of risks, as evidenced, "We can assume that a company has effective internal controls if it has a rigorous corporate risk management system" and again "A sound system of internal control is to be defined in terms of the policies and procedure that, taken together, enable the company to respond to significant risks". The German legislative provision "KonTrad" requires the "Vorstand" to implement an adequate system of risk management aimed at producing an effective system of internal controls. Additionally, the disciplinary code issued by the Borsa Italiana provides that an explicit responsibility of the board of directors be a systematic monitoring of a firm's risks. Finally, in the USA, the Sarbanes-Oxley Act entrusts to the audit committee the direct responsibility for the process of evaluating and managing a firm's risks.
3. According to Kotter the process of change requires the following actions:
 - establishing a sense of urgency;
 - creating the guiding coalition;

- developing a vision and strategy;
- communicating the change vision;
- empowering employees for broad-based action;
- generating short-term wins;
- consolidating gains and producing more change;
- anchoring new approaches in the culture.

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