

# Directors urged to take lead to manage risks

## 風險管理

### 公司董事當仁不讓

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**A**s Chinese wisdom would have it, the term “crisis” is made up of two characters – peril (危) and opportunity (機). Risks are part and parcel of doing business. So how does an organisation go about keeping risks at bay and better still, turning a crisis to its favour? In addition, how do you, a company director, identify the different threats to your business and prioritise them to cope accordingly?

For a number of years, the World Economic Forum has been conducting an annual survey of business people worldwide to assess their view on risks. Findings of its latest Executive Opinion Poll of 13,000 respondents from 140 economies, as summarized in the Global Risks Report 2015, offer the global view on risk ranking as follows:

1. Unemployment and underemployment;
2. Energy price increases;
3. Failure of national governance;
4. Asset bubbles;
5. Financial crises; and
6. Cyber-attacks.

So how does that compare to your ranking of the risks your company faces as per your perceived degree of importance? It is perfectly fine if the global list does not come close to what you have in mind or if some of the risks given have not even crossed your mind. Risk rankings are “subjective” in that a lot depends on the circumstances of the subject assessing the risks. The key is for each organisation to prioritise its risks according to its operating environment, its sector and its own strengths and weaknesses.

“Yes, organisations are faced with a myriad of risks,” said Ms Angelina Kwan, Head of Regulatory Compliance Department of the Hong Kong Exchanges and Clearing Ltd (HKEX). “Depending on its business nature, each organisation should find a way to identify, understand and deal with the various risks it may come across.” Ms Kwan can speak with authority on risk management, having headed compliance work for various financial houses and performed regulatory duties at the Securities and Futures

Commission of Hong Kong (SFC) before assuming her current post to oversee compliance department of HKEX. “Once an organisation has classified its various risks, it should seek to deal with them through acceptance, mitigation, etc,” she advised.

#### How to Identify Risks

No “one-size-fits-all” method exists by which organisations can “classify and deal with risks,” Ms Kwan pointed out.

As she explained it, one way to classify risks is “by origin.” Broadly speaking, internal risks originate from within the organisation, for instance, human capital risk and operational systems risk. External risks stem from forces outside the control of the organisation, including regulatory changes, socio-economic cycles and natural disasters.

Another way to identify risk is to utilise an “enterprise-wide risk management framework” to manage the organisation’s risks “holistically,” she said. Such a method will



allow the organisation to see risks from the broader perspective of an enterprise, thus allowing “better assessment” of integrated risks and key controls.

Be they external or internal, risks can be classified by nature into these types: strategic, compliance, operational and reputational.

No matter how they identify or classify risks, organisations must “find a way to do it so that a risk does not materialise into a real threat or an event that can ruin or bring down the organisation,” Ms Kwan warned. Organisations also should take all risks into account and “at least, quantify risks so that they know their potential financial impact, if any,” she said.

### **Know Risks from Listed Company Perspective**

Given that the general public is among their investors, listed companies have even more of an obligation to manage risks. The Listing Rules administered by The Stock Exchange of Hong Kong Ltd (SEHK)

stipulate that at least once a year, directors must conduct a review of the effectiveness of a listed company’s internal control systems, including risk management functions, noted SFC Executive Director of Corporate Finance Mr Brian Ho. He reminded listed companies that the Corporate Governance Code must be applied on a “comply or explain basis.” As the regulator of the securities and futures markets, one of the SFC’s roles is to carry out active surveillance of listed companies.

Mr Ho said listed companies should take a cue from the financial crisis of 2008, which was caused, in part, by failure in governance and risk management among financial institutions. “Serious consequences can similarly arise in listed companies if risks are not identified and managed properly,” he said. It follows that “effective risk management is crucial for the protection, well-being and growth of companies.”

### **External Risks: Factoring in Interconnectivity**

Like all organisations, listed companies in Hong Kong are faced with readily identifiable external threats such as public policy or regulatory changes, economic and socio-political instability, market volatility, technological disruption, cyber-attacks and natural disasters. And it is often the big picture that should keep company directors on their toes.

“The world is so interconnected nowadays that events from one country or region can affect greatly the rest of the world,” said HKEX’s Ms Kwan. “As the saying goes, ‘When China sneezes, the rest of the world catches a cold.’” She added that “uncertainty and fear are very large factors affecting global markets.”

From this broad perspective, Ms Kwan zoomed in on “some of the most pressing or impactful overseas threats affecting businesses in Hong Kong and China.” Examples she gave of inter-connected risks may be sweeping in scope but specific in nature:

1. The outcome of the US Presidential election in November;

2. The migration of asylum seekers;
3. Terrorist attacks in major cities with financial centres;
4. Protectionist movements in various major economies;
5. Actions by various central banks; and
6. Tension from disputes about sovereignty over the Spratly Islands and Diaoyutai or Senkaku.

“Each of these events could have a profound effect on the world’s financial markets, which would then have a knock-on effect on Hong Kong’s economy and markets, at least,” Ms Kwan said.

### **Internal Risks: Keeping an Eye on People, Finance**

Notably listed companies are paying increasing attention to operational systems integrity, financial soundness, keeping abreast of innovation for growth, as well as talent management.

Succession planning is part of talent management. Unfortunately for this part of the world, cultural and social mores are such that “fewer local/mainland Chinese companies have a formal succession plan in place at Board level,” said Ms Alva Lee, KPMG Director of Risk and Consulting. And that is “despite the increasing importance of succession planning in achieving optimal board compositions as well as facilitating whether there is a right combination of skill sets, experience and perspectives to probe management’s strategic assumptions and help the company navigate an increasingly challenging global and business environment,” she said.

Separately, chief financial officers must keep an eye on “financial reporting risk,” which invariably involves “a range of possible outcomes” requiring management to make “difficult judgment and estimates,” said Ms Loren Tang, KPMG Partner. “Quality financial reporting requires a structured and robust process to develop accounting judgments and estimates,” she said. “Hence it is important to understand management’s framework to

help ensure that appropriate controls are in place for financial reporting.”

For a current example, Ms Tang cited the new international standards on reporting revenue and leasing transactions to take effect on 1 January 2018 and 1 January 2019 respectively. In changing the way many companies recognise revenue from customer contracts and record assets and liabilities for rights and obligations related to leasing arrangements, the upcoming reporting standards “will have a significant impact across the board – from business terms and conditions to contracting processes and systems, data and accounting processes,” she said. Listed companies are encouraged to “finalise implementation plans” for the new standards as soon as possible.

### How to Deal with Risks

So having identified risks, how should companies mitigate them? There are the “three lines of defence” in enterprise risk management:

- First line – individual business units, which must assess risks and control them;
- Second line – standard setters, whose job is to monitor risks and controls, look for emerging threats and design processes to manage such threats; and
- Third line – internal auditing unit, which double-checks on the functionality and performance of the first two lines of defence.

“The challenge for companies is to co-ordinate the three lines of defence to ensure no gap exists in managing priorities and no duplication of efforts,” Ms Lee said.

Policies and procedures are another important element to risk management. HKEX’s Ms Kwan suggested that these be put in place to cover key areas such as operations, human resources, regulatory compliance and internal controls.

At the board level, directors should “refine and broaden boardroom discussions about strategy and risk management,”

Ms Tang said. In addition, “many board members have taken steps to strengthen their oversight of risks, such as, by setting up a risk management committee and focusing on prioritising risks.”

Board members should have a clear picture of the company’s risk culture, more clearly define its risk appetite, so that they can pay more attention to matters of ‘upside of risk taking’ versus risk avoidance.

### Understand Risk Appetite

Since risks can never be eliminated entirely, taking calculated risks is just as important as avoiding risks. This is where the board has a major role to play.

As the highest level of decision makers, the board must use an “integrated approach” and a systematic way to assess the “risk appetite” of their company to understand “the potential cost and benefit of business decisions,” Ms Kwan said.

“While it is impossible to remove all risks from an organisation,” said the SFC’s Mr Ho, “if directors properly understand the risks at stake, they can make informed decisions about the business and take calculated risks.”

As technology advances and global markets evolve, listed companies can be certain that they will have to remain vigilant and watch over risks. Regulators will also be paying close attention. “The SFC and the SEHK will continue to work closely together to encourage better corporate governance in Hong Kong listed companies,” Mr Ho said. And that will include “provisions on risk management, according to the needs of the market and with reference to international standards.”

# 所

謂「危機」，是表達中國語文智慧的例子。「危」意指危險，「機」卻或使人聯想到機會。營商離不開風險，那企業應如何管理風險，甚至做到轉危為機呢？而你作為公司董事，該如何識別公

司所面對的不同威脅？這些威脅的優先處理次序又該如何釐訂呢？

多年來，世界經濟論壇每年均會展開意見調查，徵詢商界人士對當前風險的看法。該組織於2015年發表的《全球風險報告》，根據13,000位來自140個經濟體人士的意見，歸納出最受全球關注的風險，次序如下：

1. 失業及就業不足；
2. 能源價格上升；
3. 國家治理失效；
4. 資產泡沫；
5. 金融危機；以及
6. 網絡攻擊。

自家企業所面對的不同風險，大家對箇中輕重固然心中有數，那相比上述調查的排序又有何異同呢？若你心目中的排序與那全球性的大相逕庭，又或有些風險是你未曾想到的，不用擔心，因為風險高低是「主觀」的，很大程度取決於調查對象評估風險時所處的環境。對企業來說，重點是要根據本身的經營環境、行業和強弱項來釐訂處理風險的優先次序。

「企業總要面對各式各樣的風險。」香港交易及結算所有限公司(香港交易所)監管合規部主管關蕙女士說。「每家企業都應根據自己的業務性質，設法識別、理解和應對可能遇到的風險。」關女士現時負責確保香港交易所的運作合乎所有法規要求。此前她曾主管多家金融機構的合規工作，亦曾在證券及期貨事務監察委員會(證監會)擔任監管職務，對風險管理工作經驗豐富。「企業為所面對的風險作出分類後，應釐定本身的風險接受程度、採取有效降低風險的措施等，以應對風險。」關女士建議。

### 如何識別風險

關女士指，「風險分類和處理」並沒有「放諸四海而皆準」的方法。

據她的解釋，「源頭分類」是其中一種風險分類方法。概括而言，內部風險源自企業本身，例如人力資本風險及營運系統風險等。外部風險則由非企業所能控制的因素造成，包括監管機制的改變、社會經濟的周期變化、天災，諸如此類。

關女士續說，另一識別風險的方法，是以「企業風險管理架構」來「全面地」管理企業的風險。此方法可從更廣闊、涵蓋整



個企業的角度來檢視企業所面對的風險，能「更有效評估」整體風險和主要監控程序。

不論是外部或內部風險，都可按其性質分為以下幾類：策略風險、合規風險、營運風險及信譽風險。

無論企業如何識別和分類風險，它們都必須「設法控制好風險，以防風險變成真正的威脅，或升級為足令企業蒙受損失，甚至倒閉的事故。」關女士說。企業亦不應忽視任何一項風險，同時「最少要做到量化風險這一步，估計風險能造成的財務損失。」她說。

### 從上市公司角度了解風險

投資上市公司的不少是普羅大眾，因此上市公司更須做好風險管理。證監會執行董事(企業融資部)何賢通先生表示，由香港聯合交易所有限公司(聯交所)負責執行的《上市規則》規定，上市公司的董事必須每年最少一次檢討公司的內部監控系統，其中包括風險管理的功能。他提醒上市公司在遵守《企業管治守則》時必須遵循「不遵守就解釋」的原則。作為證券及期貨市場的監管機構，證監會的其中一個職責是積極監管香港上市公司。

何先生表示，上市公司應以2008年金融危機為鑑，因為導致危機爆發的部分原因，便是金融機構沒有做好企業管治及風險管理。「如果上市公司沒有識別和管理好風險，可能招致同樣嚴重的後果。」他說。由此可見，「有效的風險管理有助企業保護自己，確保營運質素，得以持續發展。」

### 外部風險：緊記世界一體化

有些外來威脅不難辨識，例如公共政策或監管機制改變、經濟及社會政局動盪、市場波動、科技革新、網絡攻擊和天災，都是本地上市公司以至所有企業都得面對的。而公司董事需要密切關注的是大環境的變化。

「現今世界各地的聯繫異常緊密，一個國家或地區有事發生，足可令其他地方大受影響。」香港交易所的關蕙女士說，「近年有句諺語：『中國打噴嚏，其它地方要得感冒。』」她又補充說「不確定性與恐慌是影響全球市場的重要因素。」

關女士接著把討論聚焦於「一些來自境外，

足以影響香港及中國企業的緊急或重大威脅」。關於關連性風險，她舉的例子涵蓋面很廣，卻又有各自獨特的性質：

1. 11月美國總統選舉的結果；
2. 中東地區難民潮的動向；
3. 主要金融中心發生恐怖襲擊；
4. 保護主義在主要經濟體抬頭；
5. 各國央行的行動；及
6. 因南沙群島及釣魚島的主權問題而持續緊張的局勢。

「以上每一件事，都能對世界各地的金融市場構成深遠影響。連鎖反應下，香港的經濟和市場也不能倖免。」關女士說。

### 內部風險：留心人事與財務

上市公司明顯越來越注重營運制度完善和財政穩健，保持創意以持續發展，及做好人才管理。

繼任培育計劃是人才管理的一部分，然而我們身處地區的文化和社會觀念，令「很少本地或中國大陸企業的董事會有正式的繼任培育計劃。」畢馬威風險管理諮詢總監李懿玲女士說，「事實上，繼任培育計劃的作用越來越重要。它有助完善董事會組成，可確保董事會有合適的技能、經驗及視野來評估管理層提出的發展策略，也可協助企業應對挑戰日趨嚴峻的環球營商環境。」

企業的財務總監還有另一任務。畢馬威合夥人鄧苑儀女士表示，財務總監必須注意「財務報告風險」。這類風險涉及「眾多可能出現的結果」，管理層因而要作出「困難的判斷及評估」。「優質的財務報告，需要有系統和穩健的程序來訂立會計判斷及估計準則。」她說，「理解企業管理層的架構相當重要，能確保財務報告採納了適當的管控措施。」

鄧女士以會計準則的近期發展為例。匯報收入及租賃交易的新國際準則將於2018年1月1日及2019年1月1日生效。很多企業入帳客戶合同交易收入的方式，及紀錄租賃交易權利和責任所產生資產及負債的方法，都要因應新準則而改變。新準則也「將對董事會構成重大影響，商業條款細則，到合約訂立過程，系統、數據和會計程序都不例外。」鄧女士說。香港上市公司應盡快為新準則「制訂執行計劃」。

### 如何處理風險

企業識別風險後，應如何減低風險水平？

可以「三道防線」達至企業風險管理：

- 第一道防線 — 所有業務部門，都有責任評估及控制風險；
- 第二道防線 — 標準制定部門，專責監察風險及管控措施、尋找醞釀中的威脅，及制訂管控風險的措施；
- 第三道防線 — 內部審計部門，負責覆核第一道和第二道防線的功能和表現。

「要協調好三道防線，確保各部門對風險輕重有相同認知，並避免重複工作，這是企業要面對的挑戰。」李女士說。

風險管理亦講究政策和程序。香港交易所的關蕙女士建議企業要為營運、人力資源、監管合規及內部管控等重要範疇制定政策和程序。

至於公司董事，則應「改善和拓闊董事會內有關發展策略及風險管理的討論。」鄧女士說。此外，「許多公司董事已採取措施以強化監控風險的能力，例如成立風險管理委員會，及釐定風險的優先處理次序。」

公司董事應清楚了解公司應對風險的文化，亦要清楚訂明公司的風險胃納。這樣才能發現「承受風險所得的好處」，企業才不會只管迴避風險。

### 認清風險胃納

風險是無法根除的，承擔經過計算的風險，跟懂得迴避風險同樣重要。董事會於此扮演重要角色。

作為企業的最高決策者，董事會必須利用「綜合模式」和系統性方法來評估公司的「風險胃納」，以了解「一個商業決定的潛在成本和利益。」關女士說。

「企業營運不可能完全沒有風險。」證監會何先生說，「公司董事若能充分理解所面對風險，便可為公司業務發展作出有根據的決策，及決定承擔小心計算過的風險。」

科技不斷進步，全球市場不斷發展，上市公司肯定要對潛在風險時刻警覺。監管機構也會繼續密切留意市場風險的發展。「證監會及聯交所將繼續緊密合作，促進香港上市公司提升企業管治水平。」何先生說。措施將包括「根據市場需要及參考相關國際標準而制訂的風險管理規定」。



## How an SME Tackles Risks to Stay atop in a Fast-moving Sector

### 市場瞬息萬變 中小企如何 應對風險 闖出生天

Change is a constant challenge for a company engaged in the fickle business of wearable electronics. In his capacity as General Manager of Leader Radio Technologies Ltd (LRT), a regional leader in the distribution of brand-name IT gadgets, Mr Leo Chan is qualified to offer some words of wisdom on risk management.

Not surprisingly, Mr Chan named “intense competition” as the biggest external risk. “If we do not move fast enough, our profit margin will be undermined quickly,” he said. “We need to stay on top of a trend to source a winning product.” He recalled how in 2007, LRT rode the crest of a new wave of smartphone accessories by being the first to introduce iPhone cases to Hong Kong. Today, so many other players are in the market that “you can hardly make any profit,” he said.

By the same token, LRT management spotted the rising popularity of fitness- or sports-related electronic products such as Fitbit three years ago. As the Hong Kong economy slowed in the past two years, this category “has become our growth driver,” Mr Chan said.

To stay on top of market trend, Mr Chan and his colleagues regularly attend industry events overseas, listen to customers and keep an eye on Kickstarter and other crowd-funding organisations to see how new brands respond to market enquiries. But more importantly, they monitor closely online discussions and the social media because these are “an external risk.” “Customers usually have higher expectation of electronic gadgets,” he explained. “If their expectation is not met, they will not send you an e-mail or give

you a call to complain. Instead, they put their comments on your Facebook page.” Online complaints can spread like wild fire to ruin a company’s reputation. That is why LRT monitor these platforms around the clock.

Among internal risks, Mr Chan listed “capacity issue” as his major concern, calling it “perhaps the growing pain of a company.” Having a large product offering can strain company resources in more ways than one. As it is, more staff are needed to manage the customer database and communication channels to cater to a large number of product replacement requests. Meanwhile, LRT’s finance department has to use 16 different payment methods and procedures to satisfy 16 suppliers. And having 300 dealers “who are in different financial positions” requires the company to “pay extra attention” to offering credit during an economic downturn, he said.

So how does an SME (small and medium enterprise) deflect risk exposure to get stronger and bigger? Mr Chan believes that prudence is the key. Ironic though it may sound, he claimed that LRT has “not been very aggressive in business expansion.” Surely, the 16-year-old company has branched out from Hong Kong to set up offices in Shanghai, Beijing, Guangzhou, Chengdu and Singapore. But “we never spend more than we earn,” Mr Chan said.

He further believes that central to mitigating risk is to keep doing what one is good at. “If you do something you are not capable of, you can get into trouble,” Mr Chan warned. Apparently, LRT learned a lesson early on. The company started as a distributor of wireless household phone

sets. Having made a good profit, management decided to create a brand in the hope of getting an even higher profit margin. “Yet it turned out that owning a brand was not our core competency,” he recounted. “We learned a lesson from this experience” and have not “crossed the line” since.

More than that, Mr Chan knows how to turn a risk into a business opportunity. While online forums and the social media are a business risk to LRT, they also generate opportunities. Recognising that converting advertising into sales “is more effective in the new media than in traditional media,” LRT launched its own online store two years ago. Nowadays, advertising on Facebook is generating quite a bit of sales. -LY



**穿**戴式電子產品日新月異，產品市場瞬息萬變，銷售這類產品的公司自然要面對的挑戰。Leader Radio Technologies Ltd (LRT) 是區內首屈一指的名牌數碼產品代理商，陳利先生作為LRT的總經理，在管理風險方面經驗豐富，他的意見值得參考。

不出所料，陳先生認為「市場競爭激烈」是公司最大的外部風險。「如果我們的行動不夠迅速，利潤率很快就會被蠶食。」他說，「我們需要走在潮流之前，才有機會找到『皇牌』產品。」他憶述LRT如何在2007年，藉着智能電話配件的熱潮，成為全港首家引入iPhone手機殼的公司。而今天，這個市場已充斥競爭者，「你已經無法從中盈利了」他說。

承襲當初引入智能電話配件的策略，LRT管理層於三年前看到與健身或運動有關的電子產品，例如Fitbit，越來越受歡迎。雖然過去兩年香港經濟放緩，但這類產品「成為了公司增長的動力」陳先生說。

為領先市場潮流，陳先生和他的同事定期到海外參加業界活動，與聆聽客戶的意見，和留意Kickstarter及其他眾籌平台，觀察新品牌如何回應市場查詢。但更重要的是，他們會密切關注網上討論及社交媒體，因為這些都是「外部風險」。「客戶往往對電子產品有較高期望。」他解釋說，「如果產品令他們失望，他們不會給你發電郵或打電話來投訴，而是在你公司的Facebook頁面寫下意見。」網上投訴如如野火般蔓延，令公司的商譽毀於一旦。正因如此，LRT無時無刻都監察着這些網絡平台。

內部風險方面，陳先生最關注公司業務增長會否超過員工所能負荷，指出這「也許是每家公司成長時難免遇到的問題」。商品種類繁多的代價是公司須在多方面投放資源——首先，要聘請更多人手來管理客戶數據庫和客戶服務渠道，以應付大量更換產品的要求；其次，LRT的財務部面對16家供應商，要處理16種不同的付款方式和流程；此外，公司有300家經銷商，他們「各有不同的財政狀況」，因此陳先生說，在經濟低迷的今天，他們向經銷商提供信用額也要「額外留神」。

中小企業應如何處理風險以壯大業務？陳先生相信，箇中的關鍵是保持謹慎，這聽起來有點矛盾，但陳先生稱LRT「在擴充業務時確實沒有過分進取」，即使這家成立了16年的公司已經衝出香港，到上海、北京、廣州、成都及新加坡成立了分公司。「我們是不會容許公司入不敷支的。」陳先生說。

他又認為專注所長是能否減低風險的關鍵。「不自量力就是自尋煩惱。」陳先生的忠告，顯然源自LRT早年受過的教訓。該公司以分銷室內無線電話起家。嘗過甜頭後，公司管理層決定自創品牌，以尋求更高的利潤率。「然而，事實證明自創品牌並非我們所長。」他憶述道，「這次經驗令我們受到教訓」，自此亦不再「越界」。

陳先生更懂得如何將風險化為商機。儘管網上討論區和社交媒體給公司構成一定風險，卻有商機蘊藏其中。說到把廣告轉化成銷售，「新媒體較傳統媒體更為有效」。認識這一點的LRT在兩年前便開設了網上商店。時至今天，Facebook上的廣告為公司貢獻了一定的銷量。-LY