Enterprise-wide Risk Management: Developing & Implementing

Overview of ERM-57 course
For Utah CPCU Chapter on
January 12, 2010

ERM Improves Organization's Strategic Decision Making by

- Addresses threats and opportunities that integrates risk management with strategic planning process

- Takes a holistic approach to seeing all risks within the organization

- ERM seeks to optimize risk and create a balance between taking on too much risk or not taking on enough risk

Traditional RM vs. ERM

Traditional Risk

- Concerned with pure risk or speculative risk
- Focused on preventing or reducing potential hazard or operational losses

Reduce Potential Claims

ERM

- Concerned with global array of risks
- Focused on strategic, financial, operational, hazard, compliance, environmental, human capital, reputation, and technology risks

Risk Optimization

Benefits of Using ERM

- Enhance decision making
- Increase profitability
- Reduce volatility
- Improve ability to meet strategic goals
- Increase management accountability
- Breaking silos-seeing risk from holistic approach
- Develop business continuity

Organization's ERM Goals

- Clearly state the goals
- What are the obstacles in meeting the goals
- Evaluate upside and downside of risk
- Prioritize risks
- Determine proper risk treatment
- Capture risk intelligence
- Communicate results to decision makers

Strategic Integration

- ERM is integrated with the entire organization's strategy

- ERM provides a method to gather information organization-wide and develop a framework for analyzing and communicating that information

- Risk information is not seen in silos, but shared across the organization

Organizational Structure

- Traditional risk manager reports to an organizational department such as finance, operations, or legal
- Enterprise risk manager reports to CEO or board of directors and acts as a facilitator of and an educator about the ERM process

Improved Risk Communication

- ERM helps managers become aware of the need to identify obstacles that could interfere with achievement of the organization’s strategic goals
- Good risk communication results in fewer surprises for managers who could be caught off guard with the gravity of risk

Management Consensus

- ERM improves consensus by creating a corporate culture that embraces risk as additional component of each decision
- Empowering managers to consider risk optimization and cost of risk
- ERM provides complete information about potential effects of a decision–the upside and downside of each risk

Stakeholder Acceptance

- **Internal Stakeholders**– Managers' understanding that the way they manage risk will have a positive impact on the organization and will benefit them personally

- **External Stakeholders**– Become pleased with how ERM helps the management team protect the organization's reputation and assets

ERM Frameworks

- **ISO 31000** is being used by organizations in the United States and internationally and consists of three major parts : principles, a framework and processes for managing risk

- **COSO II** defines ERM as a process driven from an organization's board of directors that established an organization-wide strategy to manage risk within its risk appetite

- **AS/NZS 4360 or Australian/ New Zealand Standard** is intended to provide only a broad overview of risk management

Risk Culture

- An organization's attitude towards risk– are we risk seekers, risk avoiders or risk optimizers

- **Risk Appetite**–Total amount of risk to be taken to achieve organization's strategy

- **Risk Tolerance**–Specific risk limit associated with a given business strategy

Three Levels of Objectives and Goals

- **Strategic goal**- Established on board and executive level and are broad-based and give the organization its direction

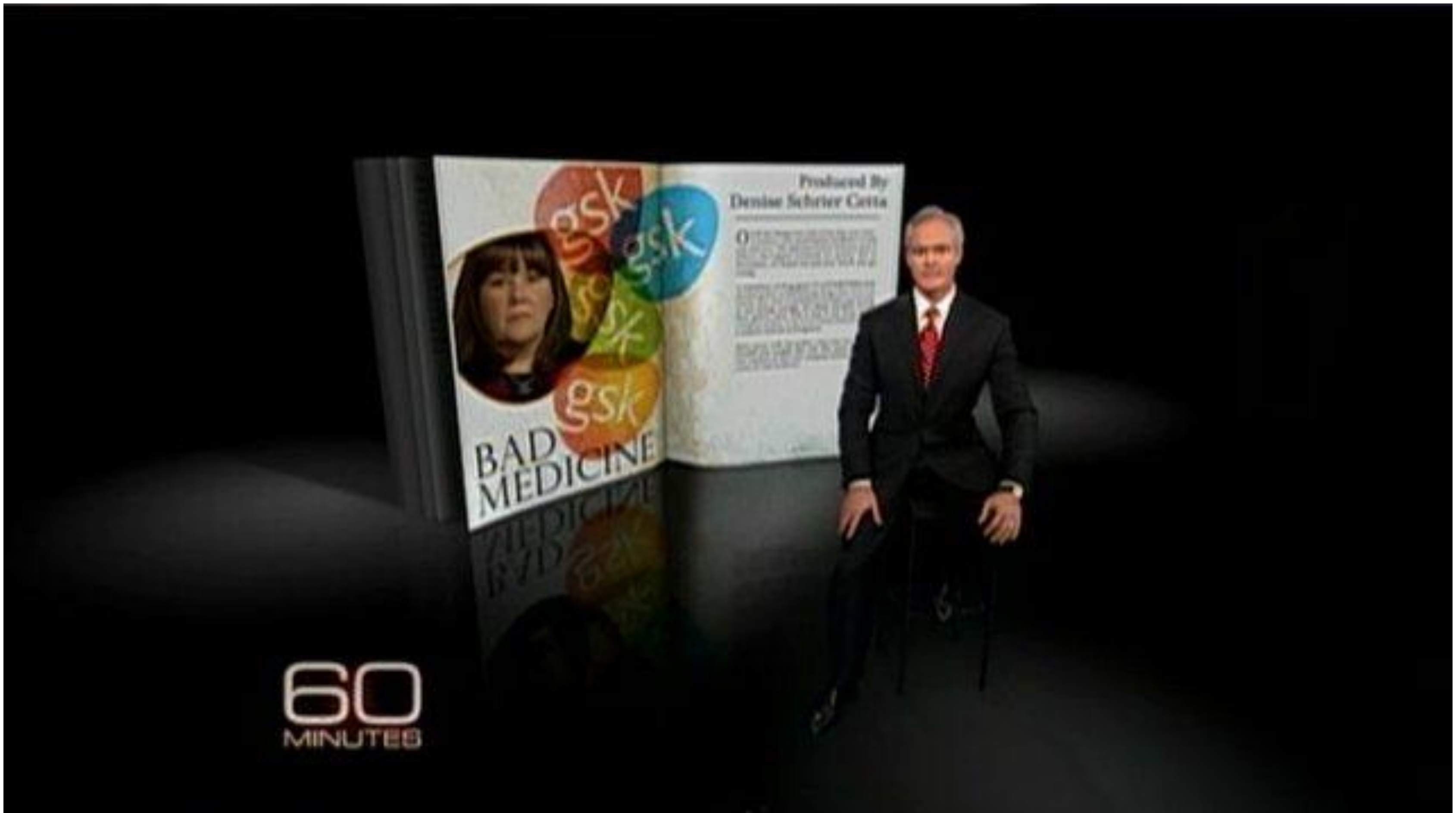
- **Operational objective**- Established at the staff management level and are functional in nature and cut across all departments within an organization

- **Tactical objective**-Established at the line management level and they represent specific tasks. These objectives relate to producing the organization's products and services

Energize Line Managers to Practice ERM

- Provide clear and focused communication of the risk goals and objectives
- Have them mentor other employees on those risk goals and objectives
- Have them collaborate with risk manager on ways to measure the risk exposures
- Have regular brain storming session on how to improve the risk controls

Example of Risk Culture: 60 Minutes Glaxo-Smith-Kline



Click picture to watch video on CBSNews.com

Questions About Risk Culture at Glaxo Smith Kline

- What were some of the communication breakdowns that Cheryl Eckard experienced when trying to communicate problems at the Cidra Plant in Puerto Rico?
- Do you feel that Cheryl Eckard should have talked to others at Glaxo Smith Kline when she was not getting anywhere with her superiors?
- How would you have handled things differently if you where in Cheryl Eckard position?
- What should Glaxo Smith Kline have done differently in handling the “bad news” in the Cidra Plant?