Aligning Key Enterprise Risk to Strategic Initiatives Using Metrics

Risk Management: Rising to the Challenges

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Aligning Risks to Strategy

Learning Objectives

At the end of this session, you will:

- Understand how to identify key risks that may have an impact on the achievement of organizational goals
- Understand how to identify relevant quantitative and qualitative metrics to monitor performance against plan
- Understand how to map key risks to core strategic initiatives in order to achieve enterprise objectives

Agenda

1. Outline the ERM process, benefits & output
2. Demonstrate the link between ERM success and strategic objectives
3. Using KRIs, KPIs and strategic objectives to optimize achievement of organizational goals

Risk Evaluation

Enterprise Risk Assessment

Strive to achieve the 3 Es of Assessment

1. **Economy** - Controlling the cost of the assessment

2. **Efficiency** - Completing the assessment with minimum expenditure of effort

3. **Effectiveness** – Achieving the results or benefits based on the stated scope and goals of the assessment

Risk Identification: 80/20 Rule

- Organizations have a tendency to spend 80% of their time identifying risks
- But only 20% doing something about them

Flip the 80/20 Rule

Spend 80% of your time fully articulating risks, assessing impact and likelihood, and developing risk mitigation strategies to reduce the impact on the organization

Risk Assessment

- Objective: identify and articulate the ***most relevant*** risks that could impact the organization's ability to achieve objectives
- Don't "Boil The Ocean"
- Assessment methods:
  - Structured interviews
  - Internal audits of existing risk assessments
  - Public domain search
  - Comprehensive on-line risk survey with write-ins
  - Facilitated, cross-functional workshops

Define the Scope

- Define the guidelines for the assessment

  Example:

  Assess the major risks to Memorial Hospital achieving its ***strategic business objectives*** over the next ***3 years***.

Risk Prioritization

- Begin by roughly ranking a broad risk list
- Target 20-25 top risks for a deep dive
- Fully ***articulate*** each risk
- Assess ***Impact*** and ***Likelihood*** based on consensus
- Results in prioritized risk profile

Risk Articulation

Fully articulate the risk into component parts:

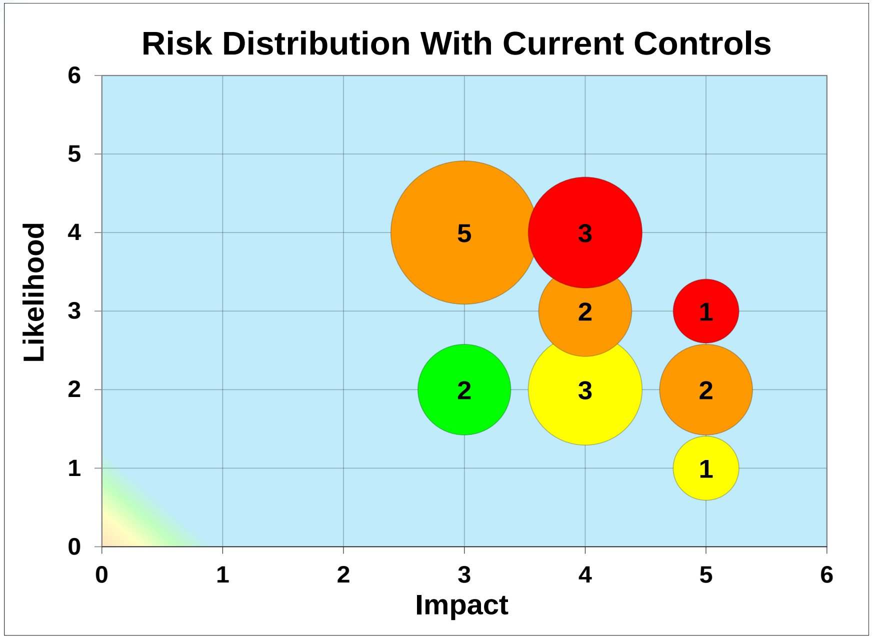
- Most risk descriptions focus on ***triggering events***
- Essential to identify ***key drivers*** or existing characteristics that make the organization vulnerable
- List specific ***consequences*** that all stakeholders can understand
- Identify the ***controls*** currently in place to specifically address each risk

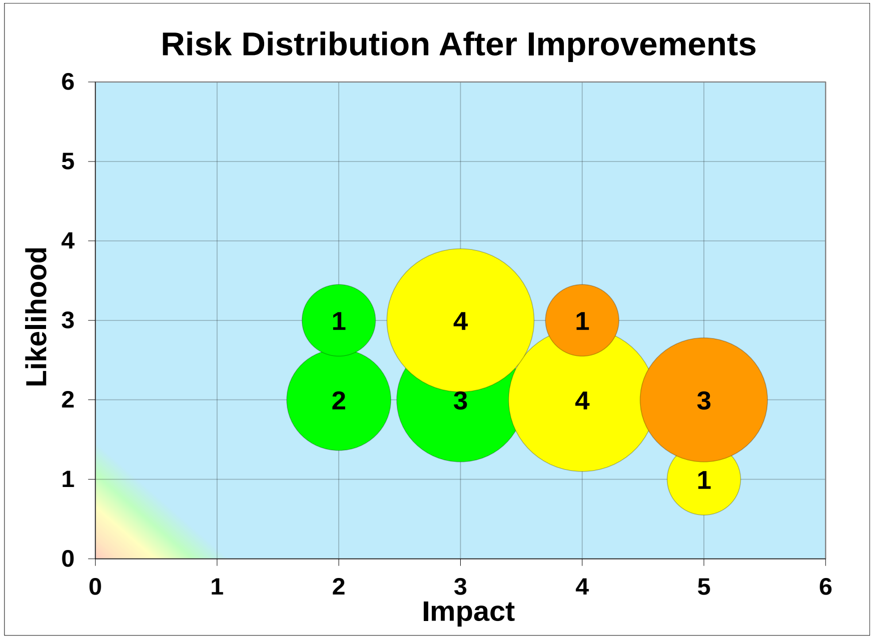
Risk Articulation

Underlying Vulnerability	Trigger	Consequence
40% revenue derived from CMS reimbursements; inappropriate utilization; low VBP score; aged patient expectation's of care; lack of alignment / care coordination	Loss of / decrease in CMS reimbursements	Decreased revenue, shift patients to ED, layoffs, reduction in services, reputation damage, inability to introduce new service lines, cut in existing services, higher acuity patients

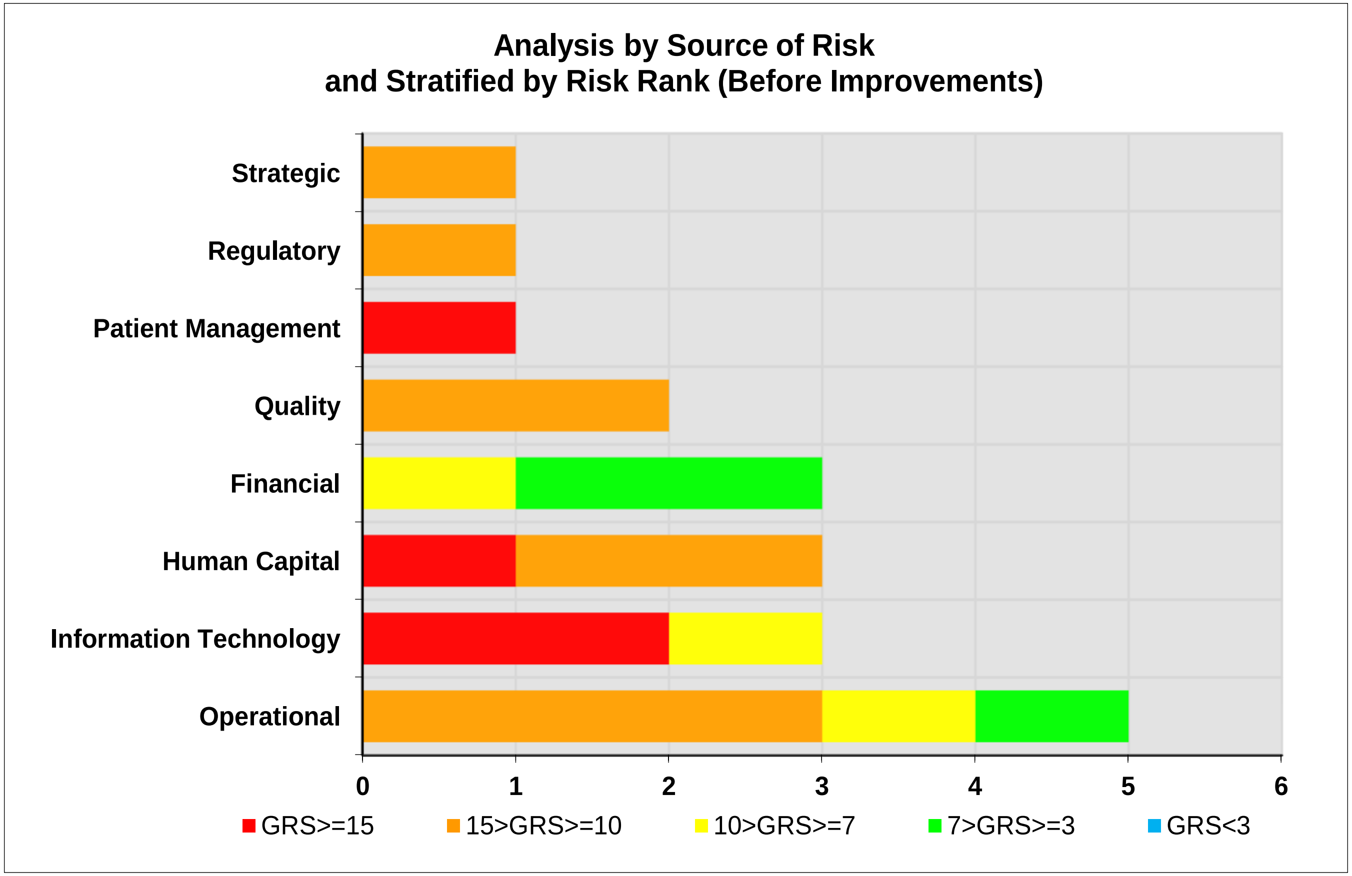
Current Controls

Qualitative Risk Distribution



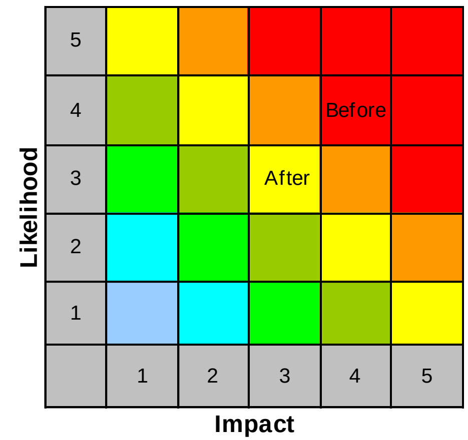


Risk Categories



Improvement planning

Risk No.	1 : Unable to Attract Qualified Personnel	Risk Scores	Impact	Likelihood	GRS
Underlyng Vulnerabilities	Local area and pay scale; Specialized nature of work; High standards of excellence; Aging workforce; Lack of budgetary agility; HR department understaffed & resources diverted	Before Improvement	4	4	16
		After Improvement	3	3	9
Triggers	Unable to attract qualified, specialized personnel in multiple critical positions for 12+ months				
Consequences	Lack of leadership and direction; Increased work burden; Decreased employee morale; Further difficulty in recruiting; Higher turnover; Reputational impact; Unable to accomplish goals and objectives of Strategic Plan				
Current Controls	HR programs to retain talent; Monitoring of key metrics by HR; Attractive recruitment packages compared to competitors; Outside professional services				



Risk Number	Risk Name	Category
1	Unable to Attract Qualified Personnel	Human Capital

Action	Measure of Success	Allocated to	Delivery
Demonstrate additional staffing needs	Perform time study on utilization of resources and present conclusions on staffing needs to Senior Execs.	Steve	30-Jun-2015
Develop and deploy a marketing and PR strategy for Local area	Develop and deploy a marketing and PR strategy for Local area	Beth	31-Dec-2015
Evaluate vendors for Talent Management System consolidation	Talent Management System consolidated under a single vendor	Beth	31-Dec-2015
Evaluate Compensation Program	Provide recommendations on improvements	Jim	31-Jul-2015

What ERM Achieves

1. Systematic & objective management of multiple and cross-enterprise risks
2. Reduction in operational surprises to better seize opportunities
3. Improvement of business performance
4. Link between risk management and organizational performance; and alignment with strategic planning
5. Increase in risk awareness throughout the organization

What ERM Achieves

6. Increased decision support for resource allocation
7. Reduction in the total cost of risk
8. Optimization of capital efficiency
9. Improvement in organizational value, and sustainable competitive advantage

ERM aligns strategy, people, processes, technology, knowledge, with the objective of continuously improving the organizations risk management capabilities over time

Organizational Objective Setting

"If you don't know where you're going, then any road will get you there." This line from Alice in Wonderland is true for many organizations[1]

The importance of setting appropriate objectives is itself an organizational objective.

Strategy setting is a fluid and dynamic process.

The Importance and Value of Organizational Goal Setting, Managing and Achieving Organizational Goals, pg. 1.

“One clear vision beats a diluted vision, every time.”

Bob Parsons

2017 Report of The State of Risk Oversight

AN OVERVIEW OF ENTERPRISE RISK MANAGEMENT PRACTICES

8th Edition | March 2017

Mark Beasley
Deloitte Professor of ERM
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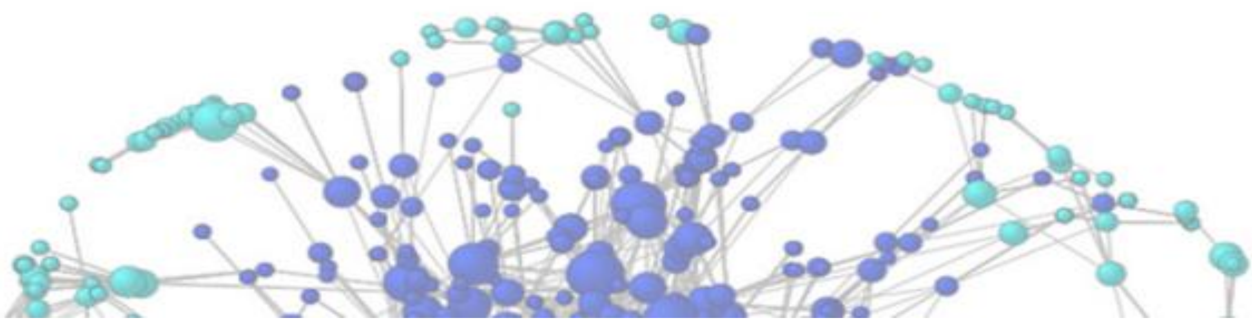


2016 Report on the State of Risk Oversight

https://www.aicpa.org/InterestAreas/BusinessIndustryAndGovernment/Resources/ERM/DownloadableDocuments/AICPA_ERM_Research_Study_2017.pdf

Research conducted by the ERM initiative at North Carolina State University

The report summarizes the findings of organizational risk oversight against current practice

Most notably, opportunities to identify and assess key risks especially with strategic planning activities

Links Between Strategy and Risk

The company's management and its board of directors should analyze the links between various strategic options and the risks they entail when entering into a strategic planning process (Smith,2012).

- 30% of Boards either ***mostly or extensively*** review the top risks during strategic planning discussions[2]
- Lord Levene: " With a clear understanding of the risks they face businesses can maximize their performance and drive forward a competitive edge"
- Boards that understand top risks – respond proactive, targeted and focused

Walid Ben-Amar1, Ameur Boujenoui1 & Daniel Zéghal1 , The Relationship between Corporate Strategy and Enterprise Risk Management: Evidence from Canada, Journal of Management and Strategy Vol. 5, No. 1; 2014, pg.1

2 – Beasley, Mark , Branson, Bruce, Bonnie Hancock, 2017 THE STATE OF RISK OVERSIGHT: AN OVERVIEW OF ENTERPRISE RISK MANAGEMENT PRACTICES 8th Edition | March 2017, pg, 15.

Setting Strategic Goals

1. Ensure you have an ***effective set of processes*** for identifying, understanding, and assessing risks to the setting and achievement of objectives.

2. Understand the relationships between objective-setting, the management of risks to those objectives, and the ***internal controls*** that manage those risks to ***acceptable levels***.

3. Understand that it is important to identify, understand, and manage risks to the setting of objectives, and that is achieved by ***effective related internal control***.

Effective KRIs

The selection of effective ***Key Risk Indicators*** (KRIs) starts with a firm understanding of organizational objectives and risks related events and uncertainties that may affect the achievement of those objectives.

KRIs (Key Risk Indicators) v. KPIs (Key performance indicators)

The two types of indicators should be implemented for effective management of risk. It is important to understand and distinguish between the two indicators:

- KPI's are Key Performance Indicators designed to offer ***a high-level overview of the historical performance*** of the enterprise or its key operations.
- KRI's are Key Risk Indicators and are born out of ***high-quality data*** used to track a specific risk and provide a ***real-time indicators*** that offers information about ***emerging risks***.
- Safeguarding an organization from risk, necessitates a ***periodic and regular review of these Key Performance Metrics***

Emil Scarlat, PhD, Nora Chirta, PhD Indicators and Metrics used in the Enterprise Risk Management(ERM),

KPI's – KRI's

KPI's: Identify underperforming aspects of enterprise that merit increased resources

KRI's:

- Based on standards
- Quantifiable
- Easily applied and understood
- Validate or invalidate decisions

Four Categories of Indicators

Coincident indicators can be thought of as a proxy measure of a loss event and can include internal error metrics or near misses.

Causal indicators are metrics that are aligned with root causes of the risk event, such as system down time

Control effectiveness indicators provide ongoing monitoring of the performance of controls. Measures may include control effectiveness, such as percent of supplier base bypassing controls, such as dollars spent with non approved suppliers.

Volume indicators (sometimes called *inherent risk indicators*) frequently are tracked as key performance indicators; however, they also can serve as a KRI. As volume indicators change, they can increase the likelihood and/or impact of an associated risk event.

Aravind Immaneni, Chris Mastro and Michael Haubenstock, A Structured Approach to Building Predictive Key Risk Indicators, Operational Risk: A Special Edition of The RMA Journal May 2004, pg. 42.

Reporting of KRI's

The Current State of ERM Oversight Report:

41 % admit to not being “at all satisfied” or “minimally satisfied” with the nature and extent of the reporting of key risk indicators to senior executives.[3]

3 .Beasley, Mark, Branson, Bruce, Hancock, Bonnie, 2017 Report on the Current State of Enterprise Risk Oversight, pg. 29

Balance Risk and Opportunity

To obtain the ***best possible alignment*** of performance management and risk management and balance risk and opportunity each ***KRI should be linked to a KPI***

Mapping Key Risks

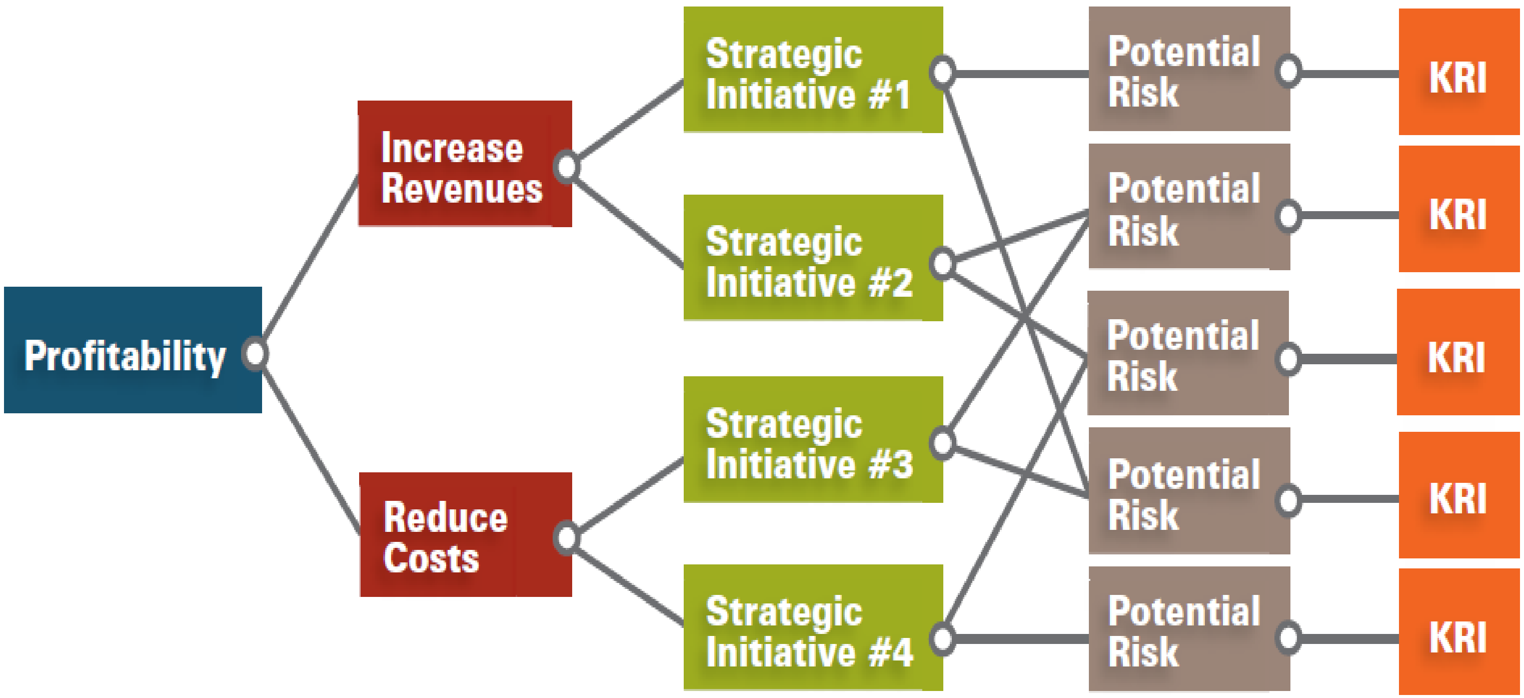
- Mapping key risks to core strategic initiatives allow management to ***identify the most critical metrics*** and monitor their performance.
- These metrics can help oversee the implementation of core strategic initiatives and ***reduce chances of disruption***
- ***Communicate, Communicate, Communicate***

The Power of Key Risk Indicators (kri's) in Enterprise Risk Management (ERM), Metric Stream, 2015 , pg. 2.

Linking Objectives to Strategies to KRI's.

Mapping key risks to core strategic initiatives puts management in a position to begin identifying the most critical metrics that can serve as leading key risk indicators to help them oversee the execution of core or strategic initiatives.

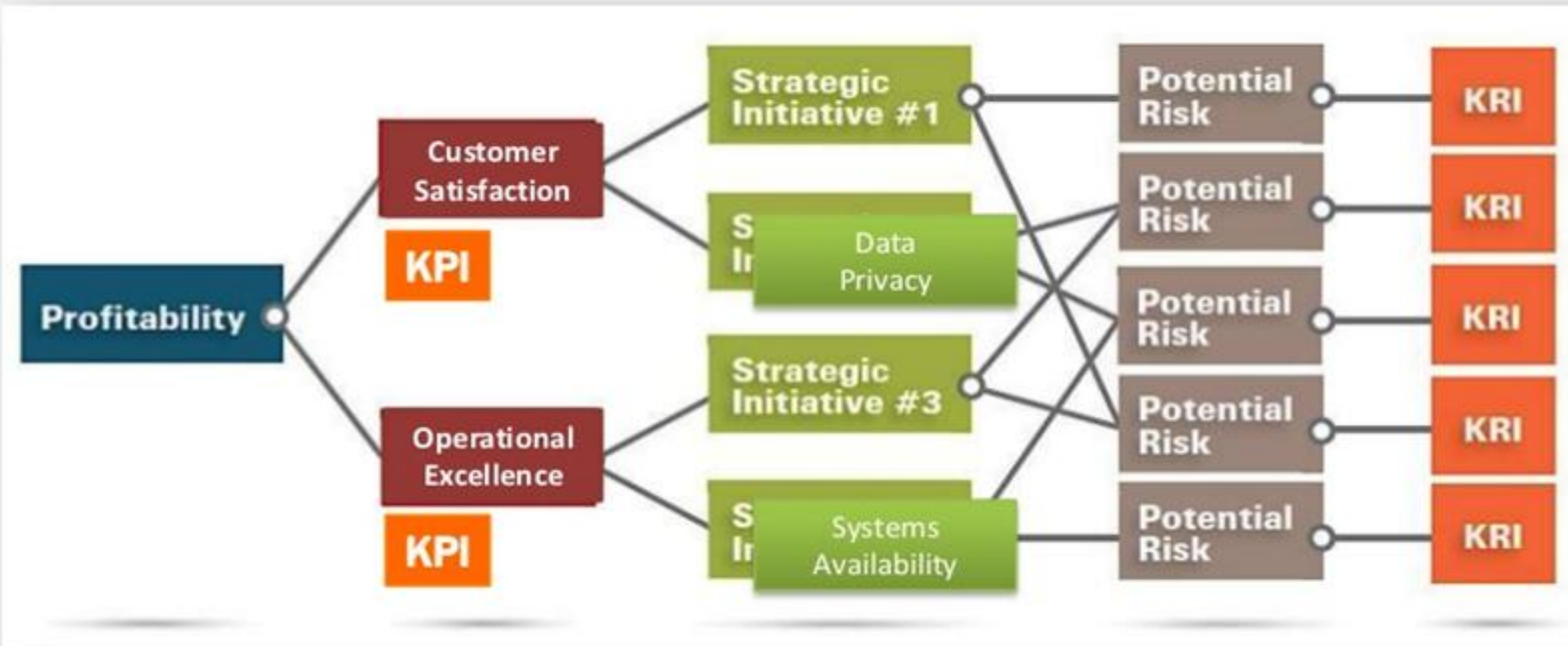
Linking Objectives to Strategies to Risks To KRI's



COSO Developing Key Risk Indicators to Strengthen Enterprise Risk Management, December 2010, pg. 2.

KRIs should be associated with corresponding KPIs measured as preceding events with causal relationship affecting desired outcomes.

IT Strategic Initiatives & Risks aligned with Company's core Pillars, Initiatives & Goals



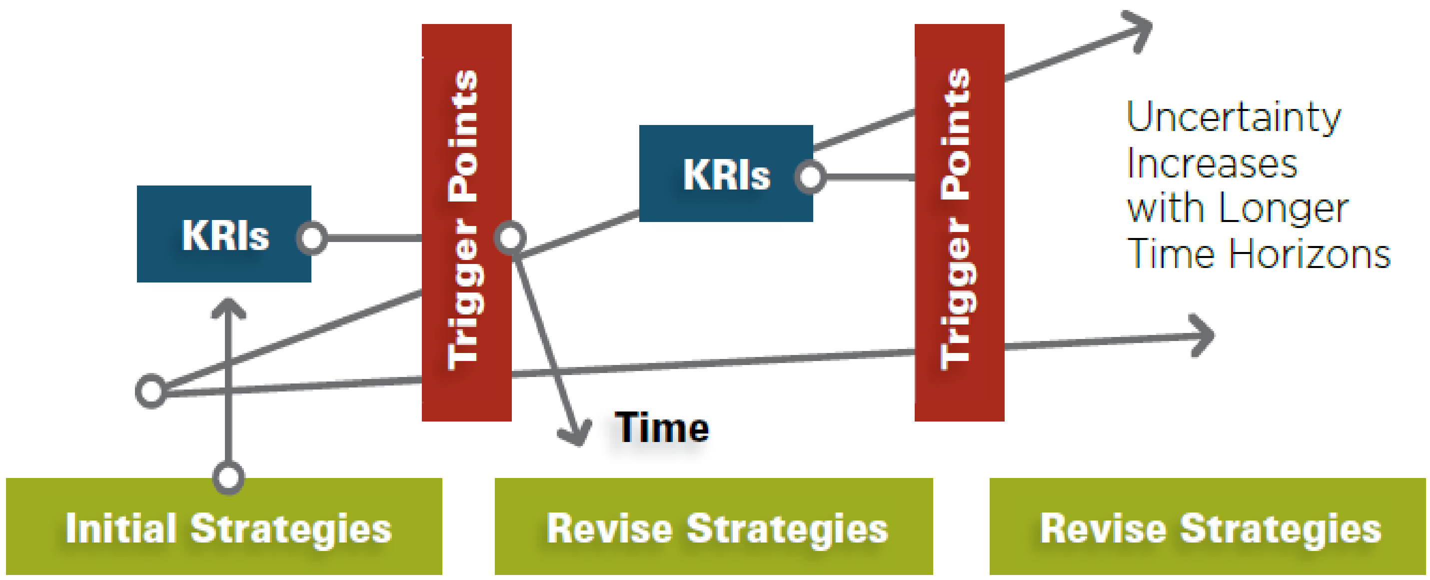
*Illustrative

Maximo Schliemann, Establishing Key Risk Indicators for IT,, July 31, 2012, slide 25.

Opportunities for Proactive Strategic Risk Management.

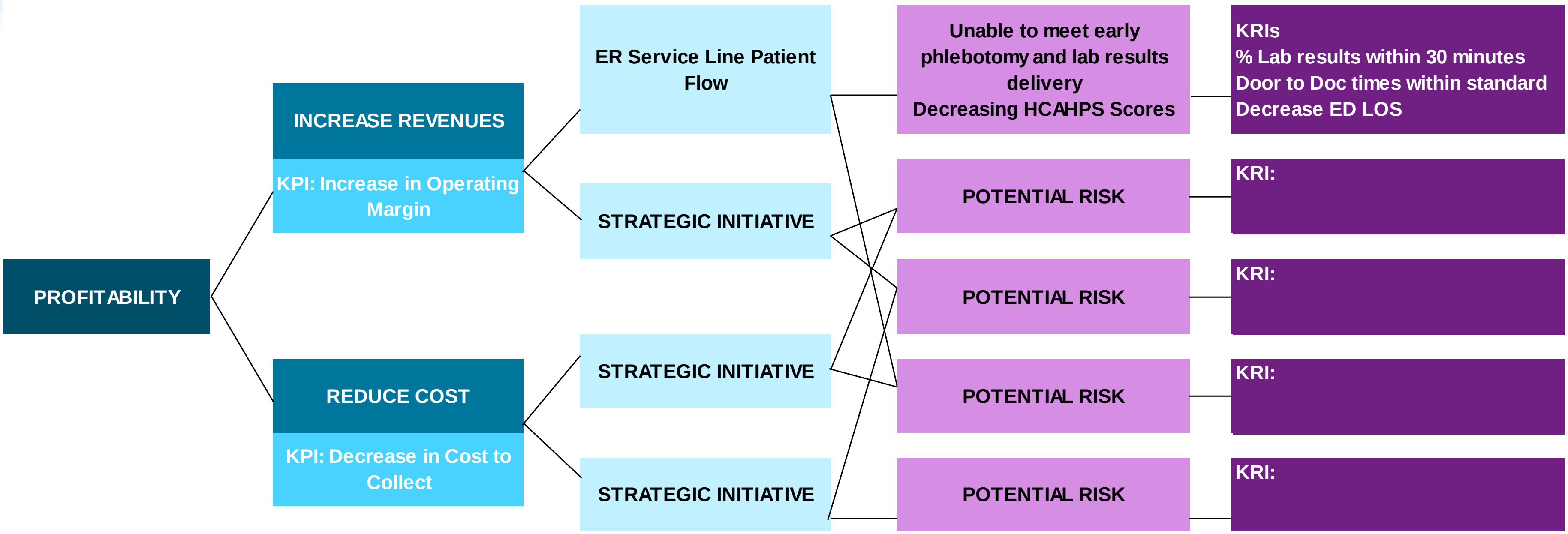
This strategic use of KRIs increases the likelihood that objectives set by management are achieved. Proactively monitoring relevant KRIs helps minimize uncertainty and identify opportunities for strategy or operational adjustments.

KRIs Facilitate Proactive Management of Emerging Risks



COSO Developing Key Risk Indicators to Strengthen Enterprise Risk Management, December 2010, pg. 5.

Strategic Risk Model



Metrics offer multiple benefits

1. Early identification of trends and issues
2. Represents a source of critical information for control
3. Provides information about the likelihood of achieving target sites,
4. Helps to make decisions based on information
5. Helps in evaluating performance
6. Leads to a proactive management
7. Improves future estimates and performance
8. Evaluates success and failure
9. Improves customer satisfaction

Walid Ben-Amar1, Ameur Boujenoui1 & Daniel Zéghal1 , The Relationship between Corporate Strategy and Enterprise Risk Management: Evidence from Canada, Journal of Management and Strategy Vol. 5, No. 1; 2014, pg.1

The Value of Metrics in ERM

Conclusion:

Organizing, monitoring, reviewing and communicating KRIs progress and their impact on KPIs provide a holistic risk management strategy which increases the value of the business. These metrics align performance with timely decision making, resource allocation and the achievement of strategic initiatives.

Just in Case

Thank you!

Risk Management: Rising to the Challenges