ENTERPRISE RISK MANAGEMENT
"Decoding The Fundamentals"

VIRTUAL SEMINAR

AN EVENT FOR INDUSTRY LEADERS, PRACTICIONERS & PROFESSIONALS

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The Importance of Aligning Business and Risk Strategies

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The Importance of Aligning Risk and Business Strategies

- As we are addressing fundamentals in this session, my contribution today will touch on the following:
  - What is a business strategy?
  - What is a risk strategy?
  - Why should an organization care that risk and business strategy aligns?
  - What does a well aligned organization look like?
  - What does a poorly aligned organization look like?
  - Summary of tips / best practices

Alignment: an arrangement in which two or more things are positioned in a straight line or parallel to each other:

What elements are in a good business strategy?

- A vision statement describes the way you envision your business.
- A mission statement describes what you do currently. It often describes what you do, for who, and how.
- Core values describe your beliefs and behaviors. They are the beliefs you have that will enable you to achieve your vision and mission.
- Long-term goals are statements that drill down a level below the vision and describe how you plan to achieve it.
- Yearly objectives - each long-term goal should have a few one-year objectives that advance your goals. Each objective should be as SMART as possible: Specific, Measurable, Achievable, Realistic, and Time-based.
- Action Plans - each objective should have a plan that details how it will be achieved.

What elements are in a good risk management strategy?

What Is ERM?
"ERM is a process, affected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."

The five COSO ERM Components are reflected above and supported by 20 principles

Mission, vision & core values	Strategy Development	Business Objective Formalation	Implementation & Performance	Enhanced Value
Governance & Culture	**Strategy & Objective-Setting**	**Performance**	**Review & Revision**	**Information, Communication, & Reporting**
1. Exercises Board Risk Oversight 2. Establishes Operating Structures 3. Defines Desired Culture 4. Demonstrates Commintment to Core Values 5. Attracts, Develops, and Retains Capable Individuals	6. Analyzes Business Context 7. Defines Risk Appetite 8. Evaluates Alternative Strategies 9. Formulates Business Objectives	10. Identifies Risk 11. Assesses Severity of Risk 12. Prioritizes Risks 13. Implements Risk Responses 14 Develops Portfolio View	15. Assesses Sustantial Change 16. Reviews Risk and Performance 17. Purses improvement in Enterprise Risk Management	18. Leverages Information and Technology 19. Communicates Risk Information 20. Reports on Risk, Culture, and Performance

COSO ERM Framework

What are some of the key risk elements that should be addressed in objective setting?

Key elements to consider:

- **Risk appetite** – the amount and type of risk that an organization is willing to accept, and must take, to achieve its strategic objectives and therefore create value for shareholders and other stakeholders
- **Risk Tolerance** is the acceptable level of variation relative to achievement of a specific objective. This variation is often measured using the same units as its related objective. In setting risk tolerance, management considers the relative importance of the related objective and aligns risk tolerances with risk appetite. Therefore, an entity operating with its risk tolerances is operating within its risk appetite.
- **Risk Culture** is the appearance and attitude of management regarding ERM that is conveyed to entity personnel. Are management's actions aligned with the implemented ERM strategies?

How should ERM relate to an Entity's Strategy?

ERM should directly ***influence an entity's strategy***. An entity's mission sets the overarching goals of an entity. From this, management sets its strategic objectives.

Strategic objectives ***are high-level goals***. It is important that strategic objectives are aligned with an entity's mission. They reflect management's choice as to how the entity will attempt to create value for its stakeholders.

Management then considers alternate ways to achieve its strategic objectives through different strategy choices.

Management uses ERM to ***evaluate risks associated with each strategy*** alternative.

Prior to finalizing an entity's strategy, management must determine that their strategy is ***within their overall risk appetite***.

Focusing on strategic objectives and strategy allows an entity to ***develop related objectives at the entity level***. Entity-level objectives are linked to and integrated with more specific objectives (i.e. operations, reporting, and compliance). These specific objectives are broken down further into sub-objectives established for various activities, ***such as sales, production, and infrastructure functions***.

What elements are in a good risk management strategy?

ISO 31000 : 2018

Organizations of all types and sizes face external and internal factors and influences that make it ***uncertain whether they will achieve their objectives.***

Managing risk is iterative and assists organizations in ***setting strategy, achieving objectives and making informed decisions.***

Managing risk is part of ***governance and leadership***, and is fundamental to how the organization is managed at all levels. It contributes to the improvement of management systems.

Managing risk is ***part of all activities*** associated with an organization and ***includes interaction with stakeholders.***

Managing risk ***considers the external and internal context of the organization***, including human behavior and cultural factors.

Managing risk is based on the ***principles, framework and processes***. These components might already exist in full or in part within the organization, however, they might need to be adapted or improved ***so that managing risk is efficient, effective and consistent.***

Why should an organization care that risk and business strategy aligns?

Effective Risk Management Helps an Organization to:

- Increases the likelihood of achieving objectives
- Encourages proactive management
- Be aware of the need to identify and treat risk throughout the organization
- Improve the identification of opportunities and threats
- Comply with legal and regulatory requirements and international norms
- Improve mandatory and voluntary reporting
- Improve governance
- Improve stakeholder confidence and trust
- Establishes a reliable basis for decision making and planning
- Improves controls

Why should an organization care that risk and business strategy aligns?

Effective Risk Management Helps an Organization to:

- Effectively allocates and uses resources for risk treatment
- Improves operational effectiveness and efficiency
- Enhance health and safety performance, as well as environmental protection
- Improves loss prevention and incident management
- Minimize losses
- Improves organizational learning
- Improves organizational resilience

Where are some of the places we should see alignment take place?

- ❑ Tone at the top
- ❑ Culture
- ❑ Governance structures / Accountability data
- ❑ Communication with stakeholders – internal and external
- ❑ Talent acquisition and retention
- ❑ Financial budgets
- ❑ Strategic relationships with third parties
- ❑ Customer niches
- ❑ Technology deployed
- ❑ Performance and compensation practices

What does a well aligned organization look like?

Considers risk at all levels of the organization with an aim of achieving or maximizing its strategic objectives (short term and long term)

- **Board level** – Establishes a well defined strategy, governance structure, realistically considers resources needed to achieve these objectives and ensures proper internal controls and continuous monitoring exists to measure its performance against established objectives. Establishes risk appetite and ensures it is cascaded and understood by the organization and third parties. Ensure desired risk culture and tone at the top permeates the organization. Ensure compensation and rewards strategy aligns with values and targets of the organization.
- **Senior / Executive Management level** – Ensures active participation and leadership in governance structure, plans and resources are in place to execute the strategy set, responsibly and transparently manages the organization day to day (periodic measurement against key metrics, performance and risk indicators); ensures adequate policies and procedures are implemented throughout the organization (and kept relevant) to ensure clarity in expectations and consistent executions of duties
- **Employee level** – Promotes sound practices at an employee level that reflects the culture and reinforces the risk appetite of the organization. This may be demonstrated through providing consistent quality and responsive service to an organizations customer base, demonstrating company values such as continuous learning, recommending continuous improvement, taking personal accountability to be safe on the job, conducting oneself with ethics and integrity
- **General** – Company activities and goals are well understood, embedded throughout the organization; ongoing measurement of performance is a transparent manner; good performance is rewarded and unsatisfactory performance is identified, tracked, corrected or eliminated.

What does a well aligned organization look like?

Considers the downside and upside of risks during the risk management and strategy review process and takes appropriate decisions from an informed perspective

- For the downside - The company identified the risks that could cause non-compliance, losses, damages and have appropriate risk strategies in place to address. Financial losses due to external market events (currency fluctuations, commodity pricing spikes); loss of productivity of staff or disruption due to exposure from cybersecurity attacks

- For the upside – the company is constantly looking at its SWOT and making decisions from a in position that allows the company to take advantage of competitive opportunities and strategic advantages such as ability to enter new markets or introduce new product lines successfully. It also allows company to take preventative measures to address issues before they happen (operational risk issues such as having proactive and ongoing regular maintenance of a fleet of vehicles to avoid service disruptions or slow response to customer servicing needs or people risk issues - having good work life balance or mental health support practices that avoid burnout of key employees)

What does a poorly aligned organization look like?

Disconnected, weak governance, failure to execute strategic plan successfully, surprise culture, regulatory sanctions or fines, unhappy customers

Board level

- Strategy is not well defined, communicated, embedded or understood by the organization.
- There is weak evidence of oversight over key risk areas of the organization or significant events occurring.
- Resources are inadequate, mismanaged and not monitored and reported on periodically. Also, no corrective action is taken to correct abuse or mismanagement of resources.
- There is evidence of poor discipline over the management of budgets and financial resources of the company.
- Employee morale is low
- Poor relationships with customers and critical third parties
- Failure to achieve success with strategic projects
- Non-resilient organization when disruption happens

Senior / Executive Management level

- Leads reactively on a consistent basis vs on a proactive basis
- Absence of effectively designed, embedded and monitored risk and performance indicators
- Effective use and integration of appropriate and cost effective technology
- Accountability mechanisms is not in place
- Effective risk management strategies is absent (e.g. - risk transfer, risk treatment)
- Disloyal employees, low morale, poor Labour relations

What does a poorly aligned organization look like?

Disconnected, weak governance, failure to execute strategic plan successfully, surprise culture, regulatory sanctions or fines, unhappy customers

Employee level

- Skill sets are a mismatch for organization's needs
- Unethical behavior is rampant and not addressed
- Absence of adequate succession plans and training
- Loss of/inability to retain top talent
- High volume of processing errors

General

- Disruption in supply chain due to weak vendor relationships
- Aggressive approach towards company by regulators
- Negative reputation with clients
- Loss of competitive edge or market share due to failed performance

Overall – Company is not achieving its objectives in an efficient and effective manner

Summary of tips / best practices

- Establish clear strategy and ensure it is understood, embedded and communicated
- Embed risk management role and processes in planning and decision making processes
- Identify and inventory the risks to the organization
- Map risks them to strategic objectives and initiatives
- Adopt a risk taxonomy / common risk language
- Have clear ownership where possible for all risks identified
- Establish a risk appetite for risks to the organization
- Analyze and evaluate risks
- Determine appropriate Risk Response
- Develop and implement risk mitigation plans

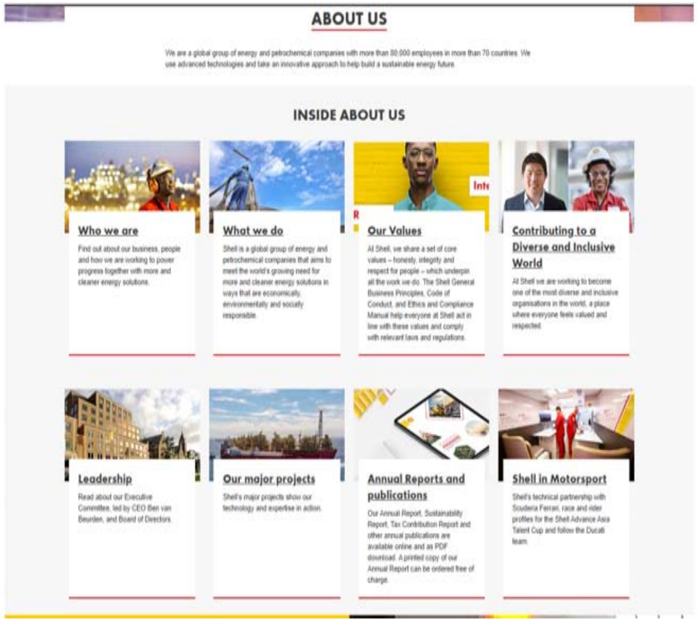
Summary of tips / best practices

- Monitor risk mitigation plans and emerging risks
- Have robust and continuous reporting on your performance as compared to your overall business and risk strategy and objectives
- Identify and closely manage strategic initiatives
- Update strategy based on your integrated and aligned process
- Think upside and downside!
- Maintain good relationships with internal and external stakeholders; obtain integrate feedback in process improvement
- Reinforce desired behaviors via ongoing training and awareness
- Reward good behavior
- Give risk function proper independence and support to challenge and report on performance

Company Examples

<u>Failure to innovate</u>
Nokia – first t o create a cellular network
Kodak – first digital camera in 1975)
Blockbuster – video rentals went from VHS to DVD but failed at streaming (e.g. Netflix)
Yahoo – was one of the main players of online advertising but undervalued the importance of search, neglected consumer trends, failed to convert number of users to profit (2002 – had deal to buy Google, 2006 – deal to buy Facebook, passed on both and you know how the story ends)
A few others – Blackberry (no iphone or android, Myspace (no tik tok), Polaroid (feel behind digital photography)

Company Examples



Questions?

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