Proudly Presents...

Strategic Risk Management: What You Need to Know

A Core Competency You Can Use

Presenters

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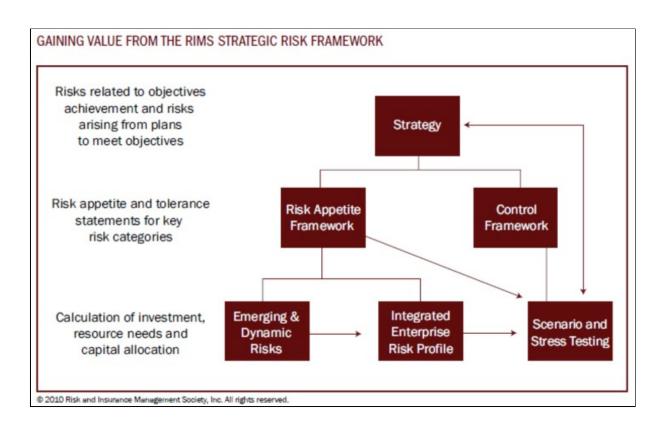
Agenda

- What is strategic risk management (SRM)?
- SRM as the new core competency
- SRM as practiced at other organizations
- SRM as part of ERM at the University of Saskatchewan
- Integrating into strategy setting and execution
- Questions



What is Strategic Risk Management?

Strategic risk management ("SRM") is a business *discipline* that drives deliberation and action regarding uncertainties and untapped opportunities that affect an organization's strategy and strategy execution.







Value Creation or Value Protection?

- 1. How does the organization intend to create shareholder and stakeholder value?
- 2. How does the organization intend to protect shareholder and stakeholder value?



Risk = an uncertain future outcome that can either improve or worsen our position





Interplay of Value Protection, Value Creation and Value Destruction

In the past 12 months, which organizations have

- created value (describe how)
- •protected value (describe how) and
- destroyed value (how)





Poll – Show of Hands

To what extent is the risk management discipline integrated with strategic planning at your organization?

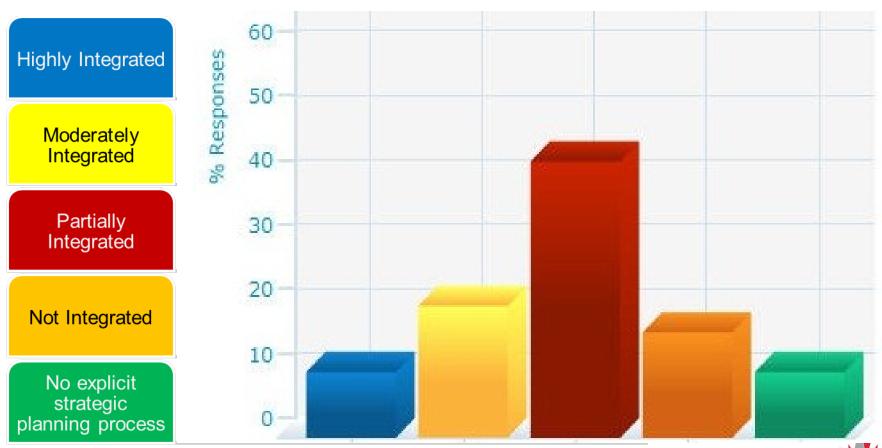
- 1. Highly integrated
 - for example, risk practitioner(s) included as part of planning team
- 1. Moderately integrated
 - for example, risk practitioner(s) involved in strategic plan review
- 1. Partially integrated
 - for example, risk practitioner(s) identify strategic risks for planning
- 1. Not integrated at all
- 2. We do not have an explicit strategic planning process





Poll Results from RIMS SRM Webinar

To what extent is the risk management discipline integrated with strategic planning at your organization?









SRM as the New Core Competency

If ERM encompasses all areas of organizational exposure to risk, including strategic, why is SRM the *new* core







Findings: The Five Reasons ERM Fails Strategic Risk Management Lab – DePaul University

- 1. Risk Management is not connected or integrated with Strategy and Strategy Execution.
- 2. Risk Assessments are focused on the wrong risks, not focused on strategic risks ("80/20 rule").
- 3. Risk Management is not executed as a continual and repeatable process.
- 4. Risk Management "silos" create barriers.
- 5. Risk Management is not viewed as value-added.

(ERM is often under-resourced and under-networked in the

"Strategic Risk Management is not a core competency"



Is SRM a needed Core Competency?

In their 1990 *Harvard Business Review* article, C.K. Prahalad and Gary Hamel introduced the concept of core competence and there are some striking applications to strategic risk management:

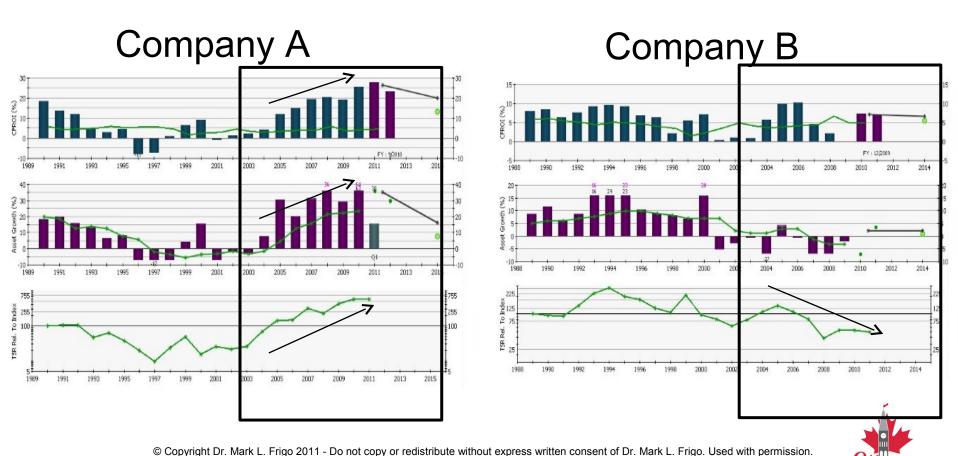
- 1."core competence is about harmonizing..." (harmonizing risk management capabilities and processes)
- 2."core competence is communication, involvement and deep commitment to working across organizational boundaries" (i.e., avoiding the silo problem which is prevalent in risk management). Silos create blind spots and redundancies, but they also present barriers to further developing strategic risk management as a core competence.
- 3."core competence does not diminish with use. Unlike physical assets, which do deteriorate over time, competencies are enhanced as they are applied and shared" "core competencies are the collective learning in the organization...."

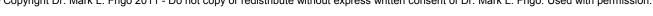
Opportunity to develop SRM as a core competency and increase the value contribution of ERM



Company A or Company B

Which has managed strategic risks and opportunities better?







Which has managed strategic risks and opportunities better?



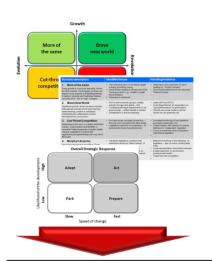
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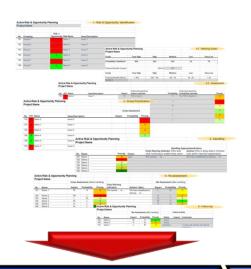




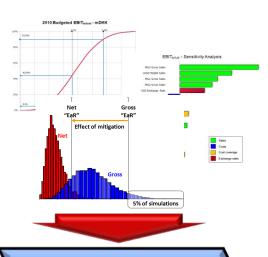


The LEGO Group Risk Management has evolved over the past 5 years









Preparing for Uncertainty

Active Risk & Opportunity Planning (AROP)

Enterprise Risk Management

Monte Carlo Simulations

With a 40% average growth of profits

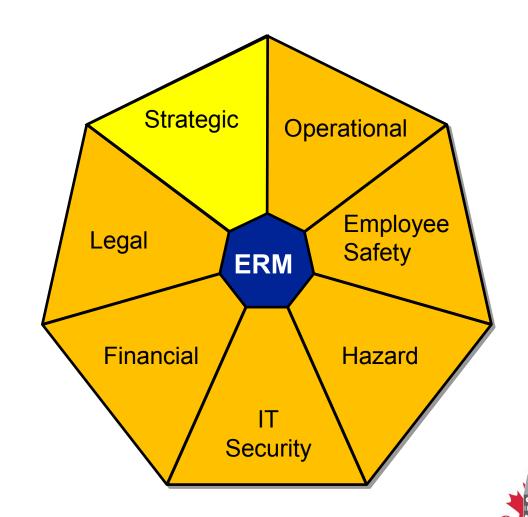






The LEGO Group Uses SRM to Drive Results

- Most risk management was in place for years
- LEGO added strategic risk management late 2006
- LEGO defined and implemented a consolidated ERM reporting from 2007
- LEGO defined its risk appetite, and reporting up against that in 2008



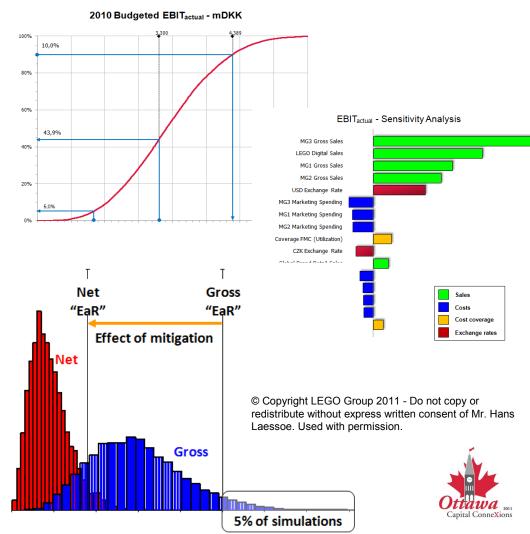




Simulation has enhanced LEGO's understanding of uncertainty

LEGO applies Monte Carlo simulation on ...

- **Budget- and estimate** uncertainties to show earnings volatility and pinpoint key drivers based on input from business controllers
- Simulation on **ERM risk portfolio** to consolidate risk exposure and identify 5% worst case scenarios – which is the base of our defined risk appetite
- Simulation of credit risk portfolio as "tool" to have a more frank discussion with insurance partners







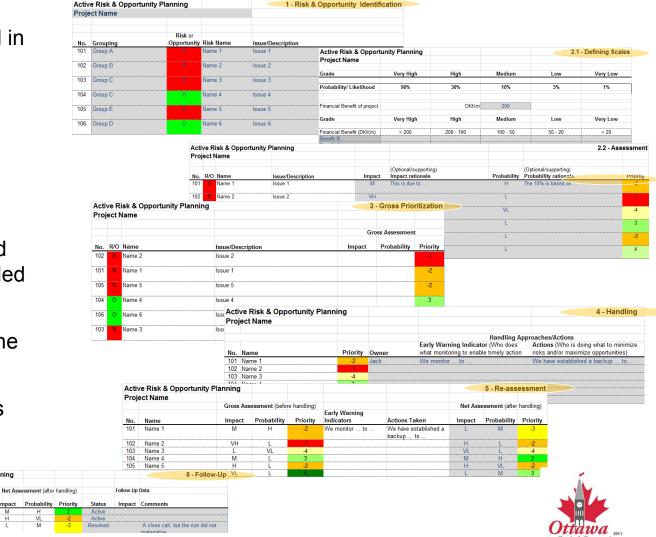
LEGO uses Active Risk & Opportunity Planning for Project Business Cases

- Systematic process defined in collaboration with project "Process Expert Network"
- Standardized Excel-based tool developed and implemented
- Mandatory for strategic projects, lighter edition used for other projects – embedded in approval process
- Done as part of preparing the project business case

Across all types of business projects within the LEGO Group

Active Risk & Opportunity Planning

Project Name



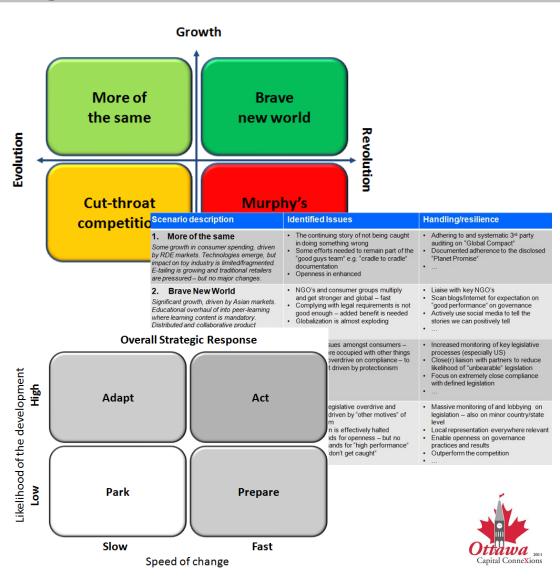




LEGO uses strategic scenarios as mind-setters and resilience testing

- Based on 12 mega trends from IMD/WEF, LEGO developed four strategic scenarios
- These were first used to open peoples minds before defining strategies for 2015/2022
- LEGO then developed a process and framework for defining the issues of strategic resilience
 - As well as a framework for prioritizing our handling efforts
- Systematic and validated testing is mandatory for a defined set key strategies as part of deep-dive preparation and discussion

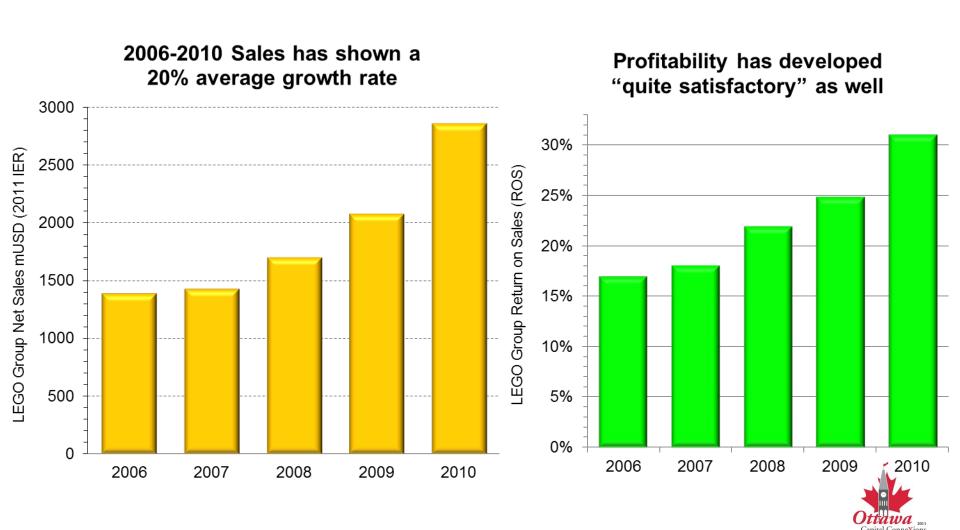
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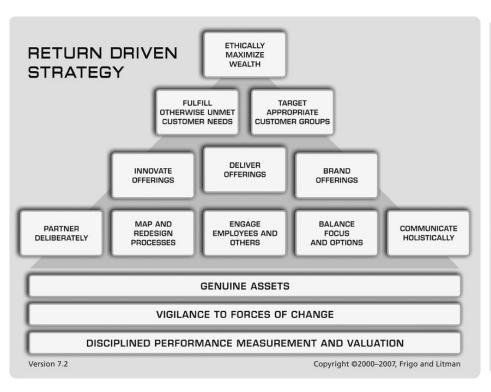
LEGO has grown and profited far beyond the market it is a part of

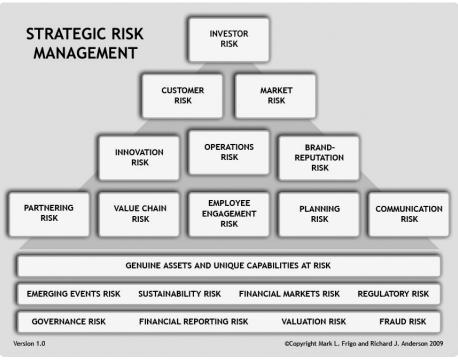




The Strong "Resilient" Organization

What can we learn from High Performance Companies?





Return Driven Strategy Framework

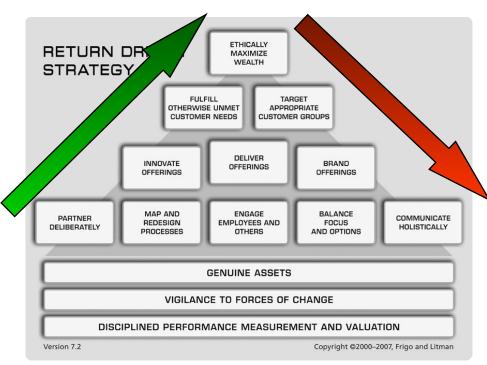
Describes the strategic activities necessary to create shareholder value

Strategic Risk Management Framework

Describes the interrelated risks of an organization and how they impact was shareholder value.



Return Driven Strategy



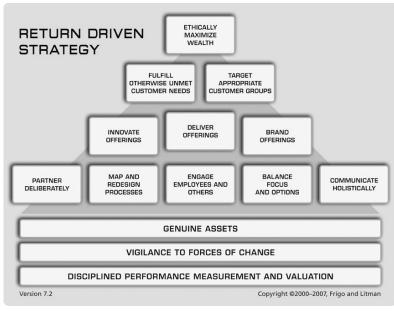
Understanding the Rise and Decline of Companies and Business Units

- High performance isn't permanent.
 Every high-performance company we studied faces the risk of fading. Some have already begun to fade in either returns or growth or both.
- In every case, the reasons for fade can be charted to how the tenets of Return Driven Strategy were neglected or could not be executed.
- Meanwhile, the rise of these companies' performance and the sustainability of high performance can be attributed to attention to these tenets.
- Companies with mediocre or poor performance demonstrate significant gaps in their business models when viewed through the lens of Return Driven Strategy



Consider the case of the adidas Group





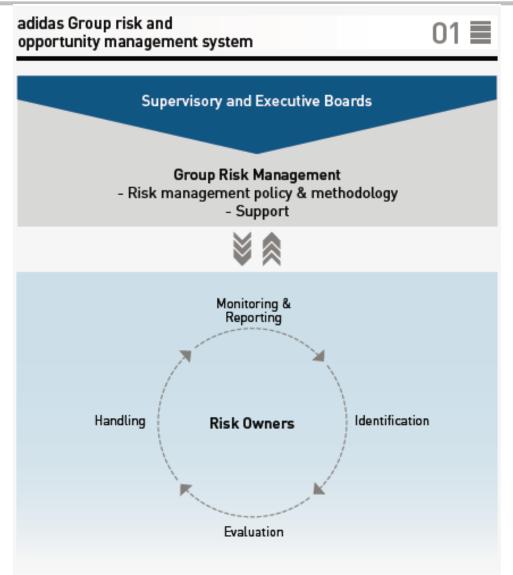
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Capital ConneXions

adidas Group 2010 Annual Report Risk and Opportunity Management System









adidas Group 2010 Annual Report



GROUP

Corporat	e risk	covervi	iew
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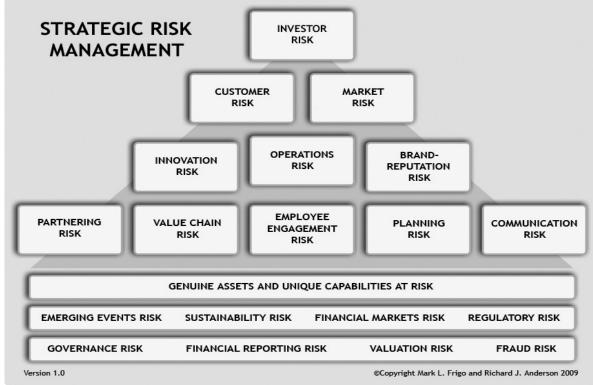
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	Likelihood of occurrence	Potential financial impact
Strategic and operational risks		
Macroeconomic risks	Likely	Significant
Consumer demand risks	Likely	Moderate
Industry consolidation risks	Probable	Significant
Hazard risks	Unlikely	Major
Risks from loss of brand image	Possible	Significant
Own-retail risks	Likely	Moderate
Risks from rising input costs	Highly probable	Major
Supplier default risks	Possible	Moderate
Inventory risks	Possible	Moderate
Customer risks	Highly probable	Major
Regulatory risks	Likely	Significant
Risks from loss of key event or promotion partnerships	Likely	Moderate
Product design and development risks	Possible	Minor
Personnel risks	Likely	Moderate
IT risks	Unlikely	Significant
Compliance-related risks		
Legal risks	Possible	Moderate
Social and environmental risks	Probable	Moderate
Risks from product counterfeiting and imitation	Highly probable	Moderate
Product quality risks	Possible	Moderate
Risks from non-compliance	Unlikely	Minor
Financial risks		
Credit risks	Possible	Moderate
Financing and liquidity risks	Unlikely	Minor
Currency risks	Highly probable	Major
Interest rate risks	Highly probable	Moderate





adidas Group 2010 Annual Report Corporate Risk Overview

-	
Corporate risk overview	adida
Strategic and operational risks	GROUP
Macroeconomic risks	01001
Consumer demand risks	
Industry consolidation risks	
Hazard risks	
Risks from loss of brand image	
Own-retail risks	
Risks from rising input costs	
Supplier default risks	
Inventory risks	
Customer risks	
Regulatory risks	
Risks from loss of key event or promotion pa	artnerships
Product design and development risks	
Personnel risks	
IT risks	
Compliance-related risks	
Legal risks	
Social and environmental risks	
Risks from product counterfeiting and imita	tion
Product quality risks	tion
Risks from non-compliance	
Maks from fion compliance	
Financial risks	,
Credit risks	
Financing and liquidity risks	
Currency risks	







Interest rate risks

Opportunity Management

Value, Strategy and Performance Metrics Discussion

- •Are you moving your program from risk management to risk opportunity?
- •How are you delivering more value through risk than just the governance aspect?
- •What practices are you using that are being recognized (e.g., by board, management, other stakeholders) for creating value for your organizations?
- •Describe involvement with strategy setting and execution at your organization.
- •What performance metrics do you use for ERM, in addition to risk avoidance? Would these be different from a governmental agency perspective?
- •How have you worked with strategic management to measure strategic risks, monitor them, and especially develop them into opportunities? What process is used for developing the measure/metric?



adidas Group 2010 Annual Report



Corporate opportunities overview	07≣
Strategic and operational opportunities	
Favourable macroeconomic developments	
Growing importance of sports to fight obesity	
Ongoing fusion of sport and lifestyle	
Emerging markets as long-term growth drivers	
Women's segment offers long-term potential	
Increasing consumer demand for functional apparel	
Growing popularity of "green" products	
Social media offering new ways of consumer engagemen	nt
Strong market positions worldwide	
Multi-brand approach	
Personalisation and customisation replacing mass wear	
Exploiting potential of new and fast-growing sports cated	gories
Expanding distribution scope	
Cost optimisation drives profitability improvements	
Financial opportunities	
Favourable financial market changes	





SRM as part of ERM at the SASKATCHEWAN





ERM is intended to support the achievement of our strategic objectives

"Never forget- decision-making is all about taking risks. You cannot eliminate risks. It is futile. The bigger your job, the greater the risks you should be taking.

The idea is not to try to eliminate risks, but to take right risks."

Peter F. Drucker



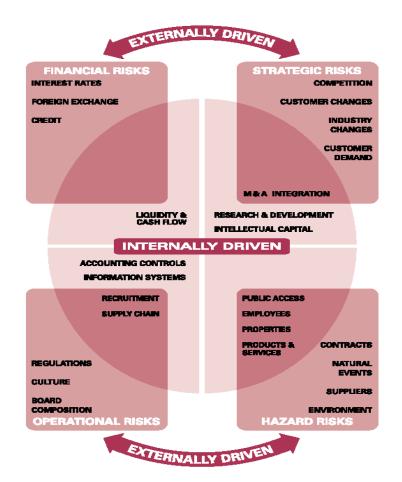
Sample Enterprise-level Risk Categories

Strategic Risks Financial Risks Credit default Growth Strategy Competitive Threat Market risks Intellectual capital Interest rate changes Research and Development Currency/foreign exchange Channels and Networks **fluctuations** Client/Industry Changes Liquidity, cash flow issues Brand/Reputation Mgmt **Business** Risks Property Damage Governance Information Systems Employee Injury/Illness Natural Disasters Accounting/Control Systems General Liability/Legal Risks HR/Key People Issues Business Interruption Supply Chain Product Contamination Commodity & Labour Costs **Hazard Risks Operational Risks**



Strategic Risk Drivers in Higher Education

2.1 Examples of the Drivers of Key Risks



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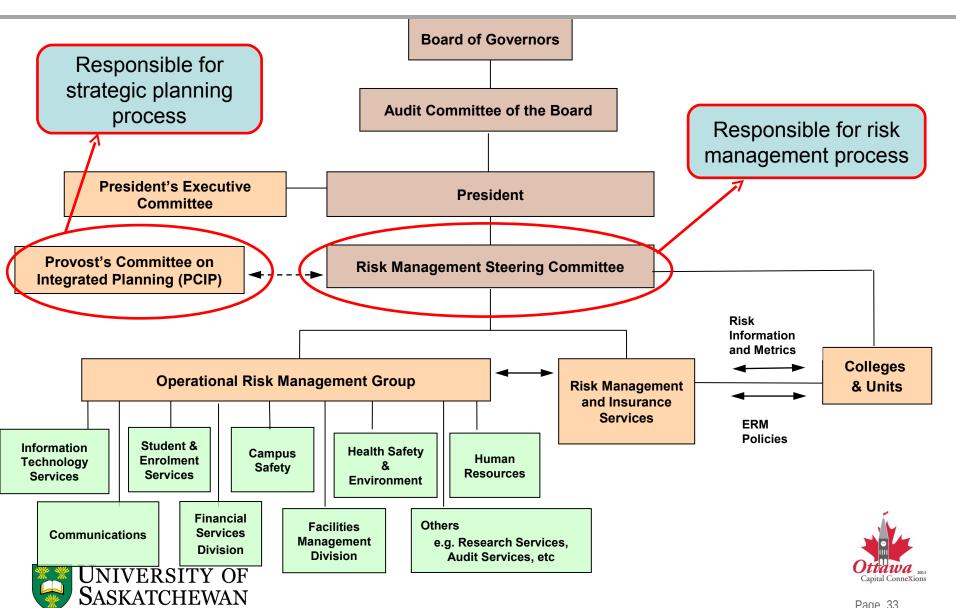
- The maturing of the country and the national higher education landscape
- Changes in funding for universities, particularly in federal government funding
- 3) Canada's continuing weak innovation performance
- 4) Changing local and national expectations of universities
- 5) Technology and its impact on how we organize our activities, and
- 6) The international higher education context, particularly in Europe and China

Strategic Directions

- Attract and retain outstanding faculty
- Increase campus-wide commitment to research, scholarly and artistic work
- Establish the University of Saskatchewan as a major presence in graduate education
- Recruit and retain a diverse and academically promising body of students, and prepare them for success in the knowledge age



ERM Organizational Framework

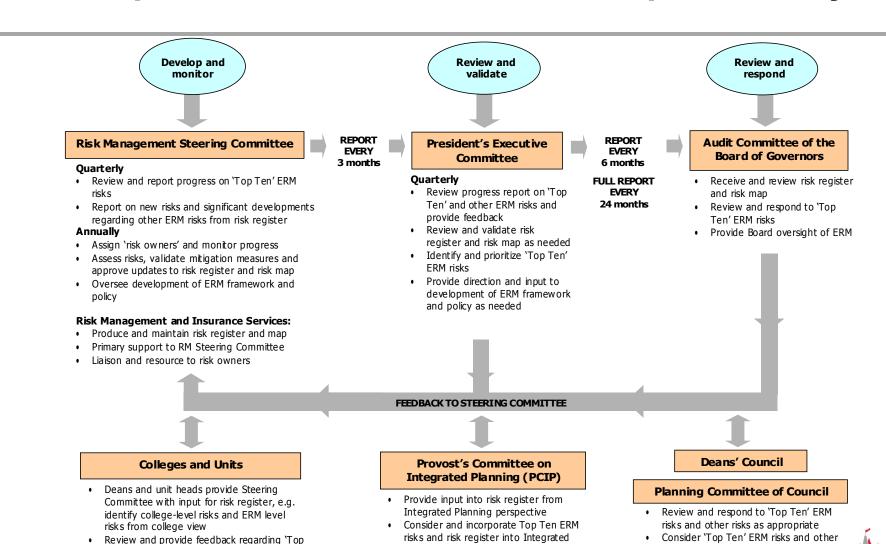


Risk Management links with Strategic / Integrated Planning

- Risk Management 'informs' strategic planning and provides input and context to assist in decision-making and resource allocation
- Strategic plans and objectives are key considerations in determining top risks
- Risk Management steering committee and integrated planning advisory committee have common members, and meetings are "co-scheduled"
- Proposals are required to identify effects on top risks
- Emphasis on building risk management capability and capacity to use to our advantage, i.e. intelligent risk taking



ERM process is a continual and repeatable cycle



Planning process



Ten' ERM risks and others as appropriate

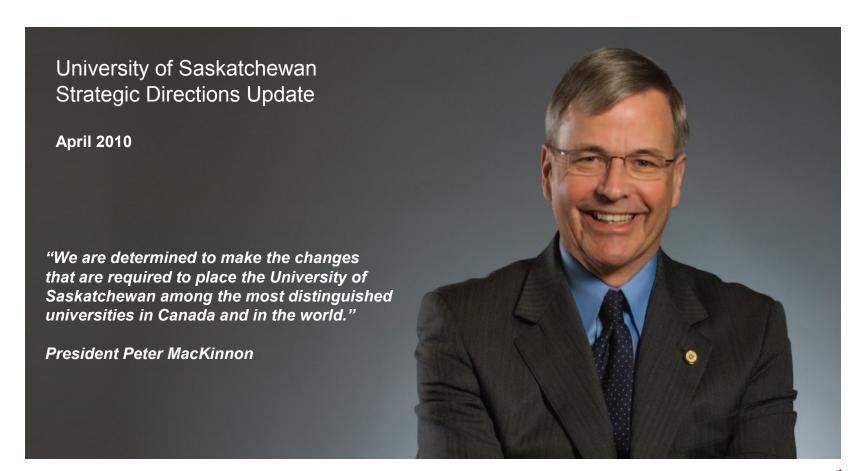
risks to inform planning activities.

Top 10 and Top 20 process

- Focus on strategic risks and "enterprise-level" risks of any category
- Engages President's Executive Committee and other senior management to consider the most critical 'strategic' risks at a point in time
- Ensures that Top 10 risks are tracked closely and discussed frequently by senior management and board.
- Supports common understanding of risks affecting strategic objectives, our Risk Management capacity and effectiveness



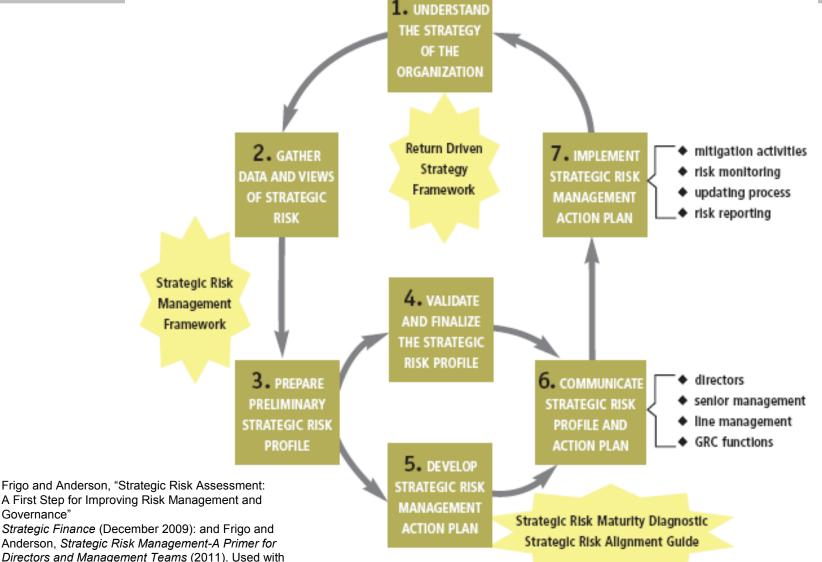
So, how does ERM actually help us achieve our strategic objectives?





Strategic Risk Assessment: A First Step for Improving P

A First Step for Improving Risk Management



Integrated in Strategy Setting

Create and Protect Shareholder and Stakeholder Value

Financial Strategic Objectives

Improve Productivity

Profitable Growth from New Technologies and Services Increase Value from Existing and New Customers Organizational Efficiency and Leverage

Customer Strategic Objectives

Cost & Quality Leadership

Develop Technologies to Improve Cost & Performance Deliver Highly Valued Solutions

Customer Focused

Strategic Themes

Internal Process

Strategic Objectives

1- Operational Excellence

Reduce costs

Improve quality and costs continuously

Eliminate non-value added processes

Risk Management: Liability for Failures 2-Create Value with Technology

Disciplined Investment in New Technologies

Drive Packaging Technology

> Leverage Technology

Licensing

Risk Management: Protect IP 3-Grow High Value Customer Relationships

Improve Pricing Discipline

Enable Rapid New Product introduction

Leverage an Open
Collaboration
Technology
Transfer Model

Risk Management: Protect Customer Information 4-Organizational Alignment

Communication and Teaming

Information Sharing

Roles and Alignment

Risk Management: Strategic Risk Assessment

Risk Management: ERM Initiative

Capabilities and Growth Strategic Objectives Organizational Alignment "Create a High Performance Culture and Infrastructure"

Develop Balanced Scorecard and Strategy Maps Retain and Develop Critical Talent Develop Strategic Risk Management Skills and Culture Develop Leadership and Execution-Driven Culture

Enable and Encourage
Continuous Learning
and Knowledge Sharing

Capital Cor



Integrating in Strategy Execution



Thank You

Wrap Up

Questions

Key Takeaways

Please explore RIMS ERM Center of Excellence

www.rims.org



