

Proudly presents...

Session 4C: Strategic Risk Management: Improving Your Organization's Chances for Success

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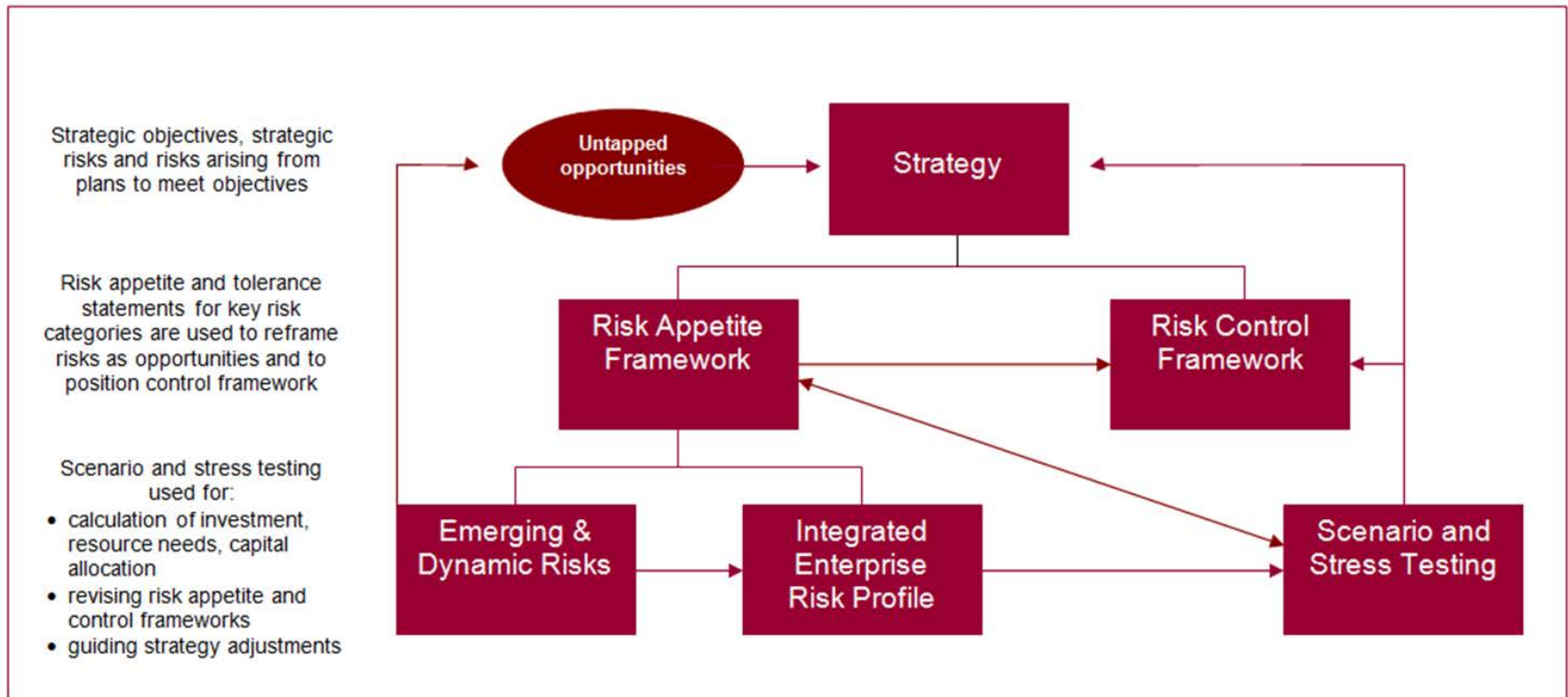
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Strategic Risk Management
The Lego Group

Session Outline

- Overview of Strategic Risk Management
- The Case for Strategic Risk Management
- Case Studies:
 - Aligning Strategy and Risk in the Edmonton Police Service
 - View from the Risk Manager
 - View from the Chief of Police
 - Adding Value through SRM in the Lego Group
- Questions

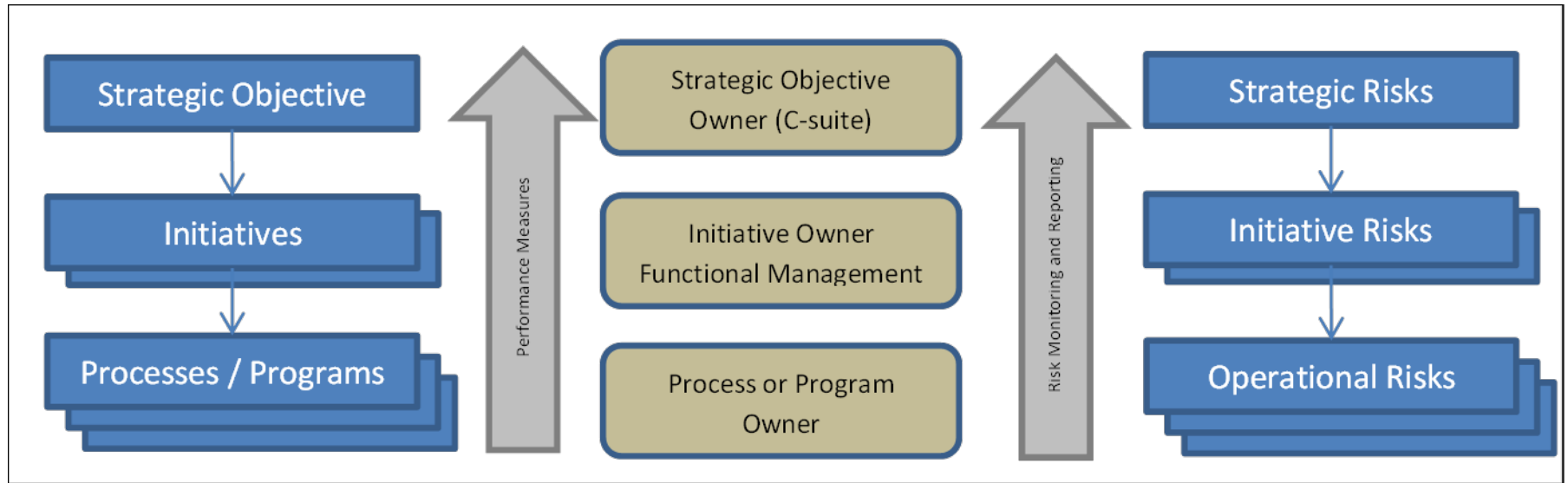
Overview of Strategic Risk Management



RIMS Strategic Risk Management Framework, © Risk and Insurance Management Society, Inc. (RIMS)

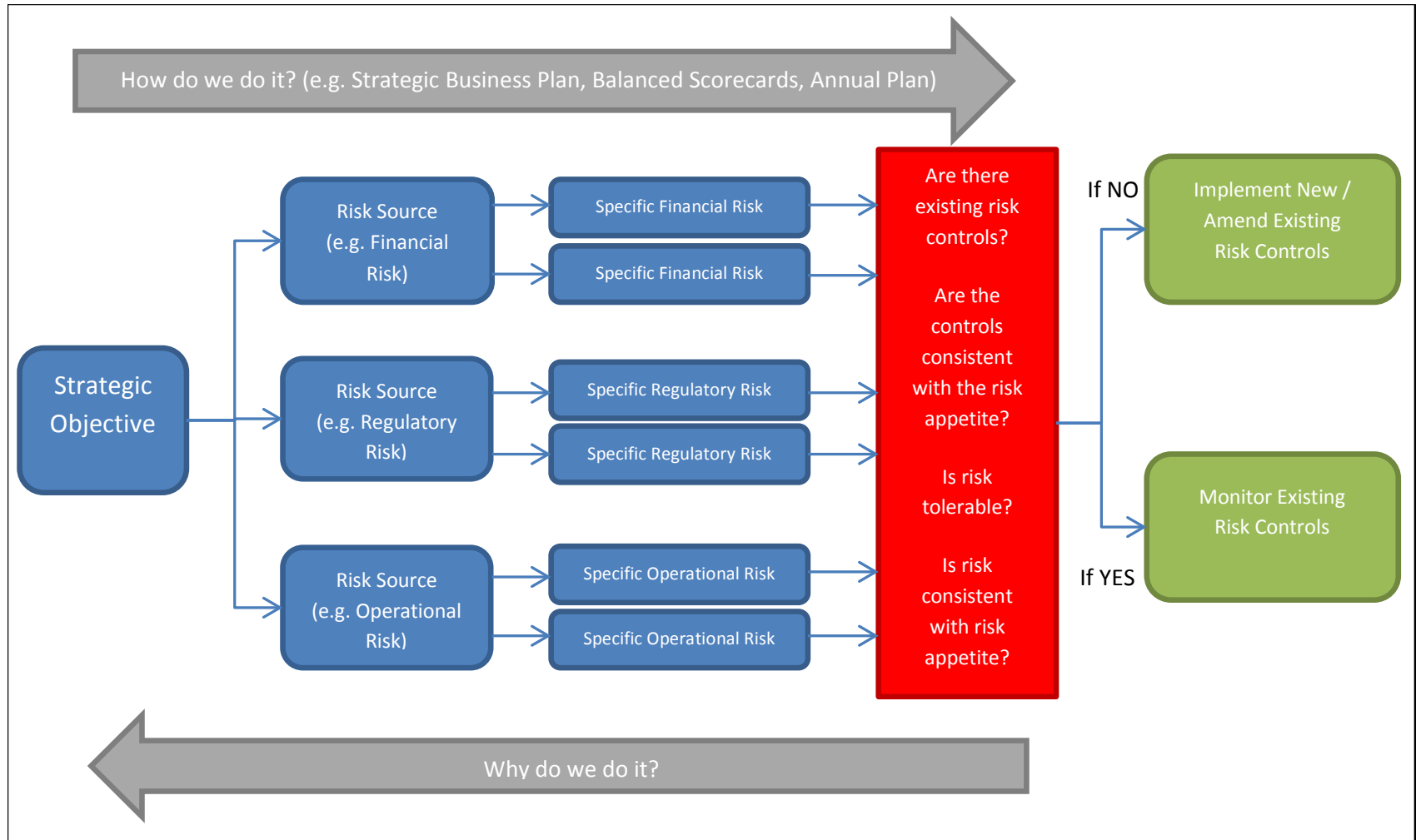
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Aligning Strategy and Risk Management



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Aligning Strategy and Risk Management



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Aligning Risk and Strategy in the Edmonton Police Service

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SERVICE

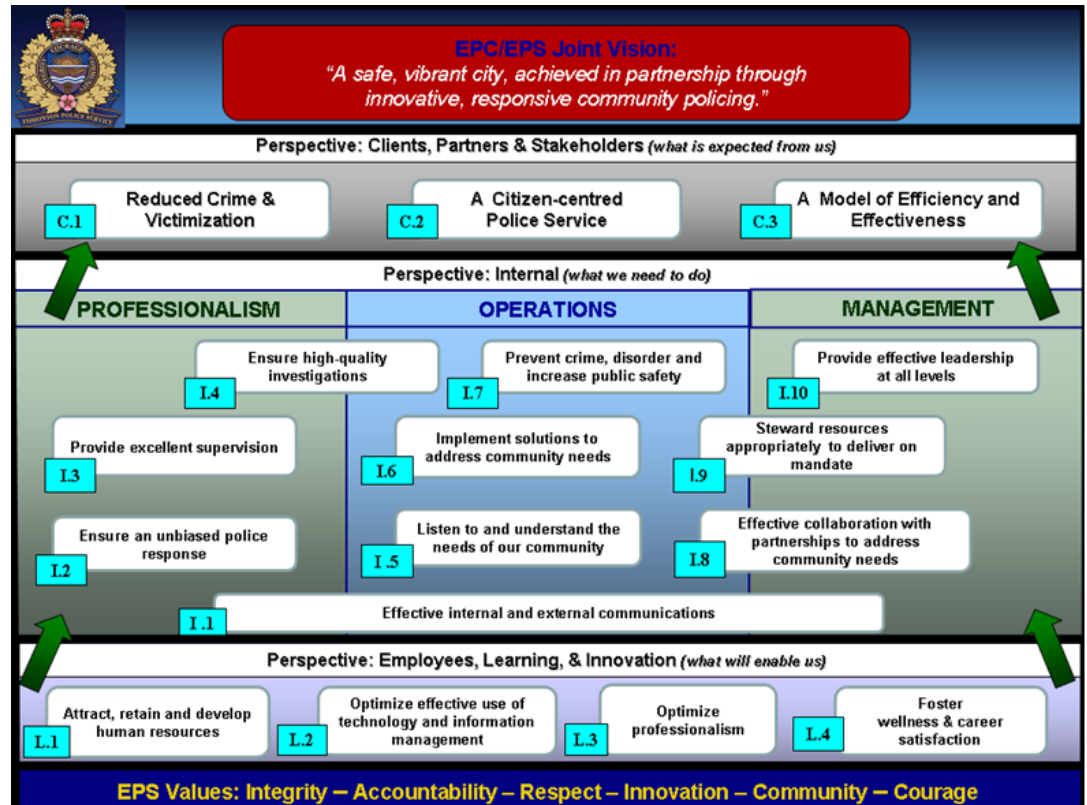


The EPS Risk Context

- City Population of 812,201 (as of May 2011)
 - 1,159,869 in CMA
 - Large (and mostly untaxed) transient population
- 22% of the Population do not speak an official language
- One in six children in Edmonton live in poverty

The EPS Strategic Framework

- EPS uses a modified *Balanced Scorecard* approach in its strategic planning and management
- Three main objectives:
 - Reduced crime and victimization
 - Citizen-centred Police Service
 - Model of efficiency and effectiveness



The EPS Risk Framework

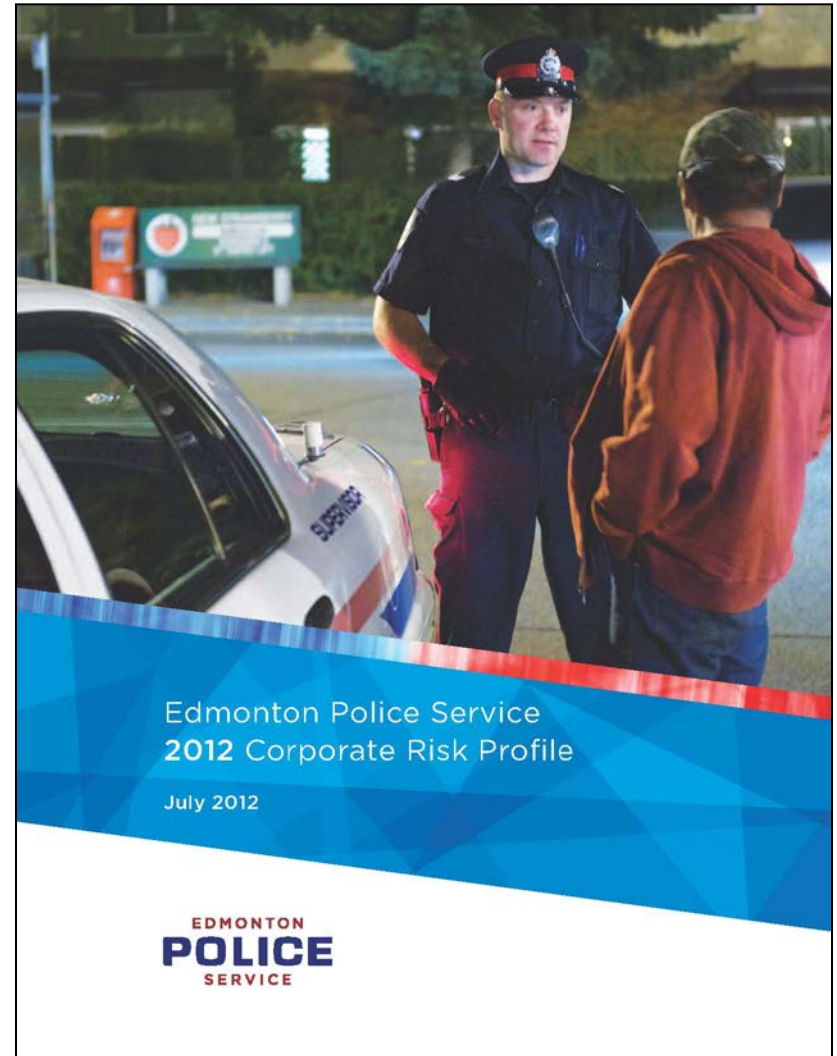
- EPS *Integrated Risk Management Framework* describes nine strategic “sources” of risk
- Each source is further defined into a number of sub-sources
- Not prescriptive – used to guide discussion and get to root cause



Specific SRM Outputs

Corporate Risk Profile

- Conduct an annual Corporate Risk Profile exercise
- Based around Treasury Board of Canada Secretariat Guidelines
- Focus on pan-organizational risks that impact strategic objectives



Specific SRM Outputs

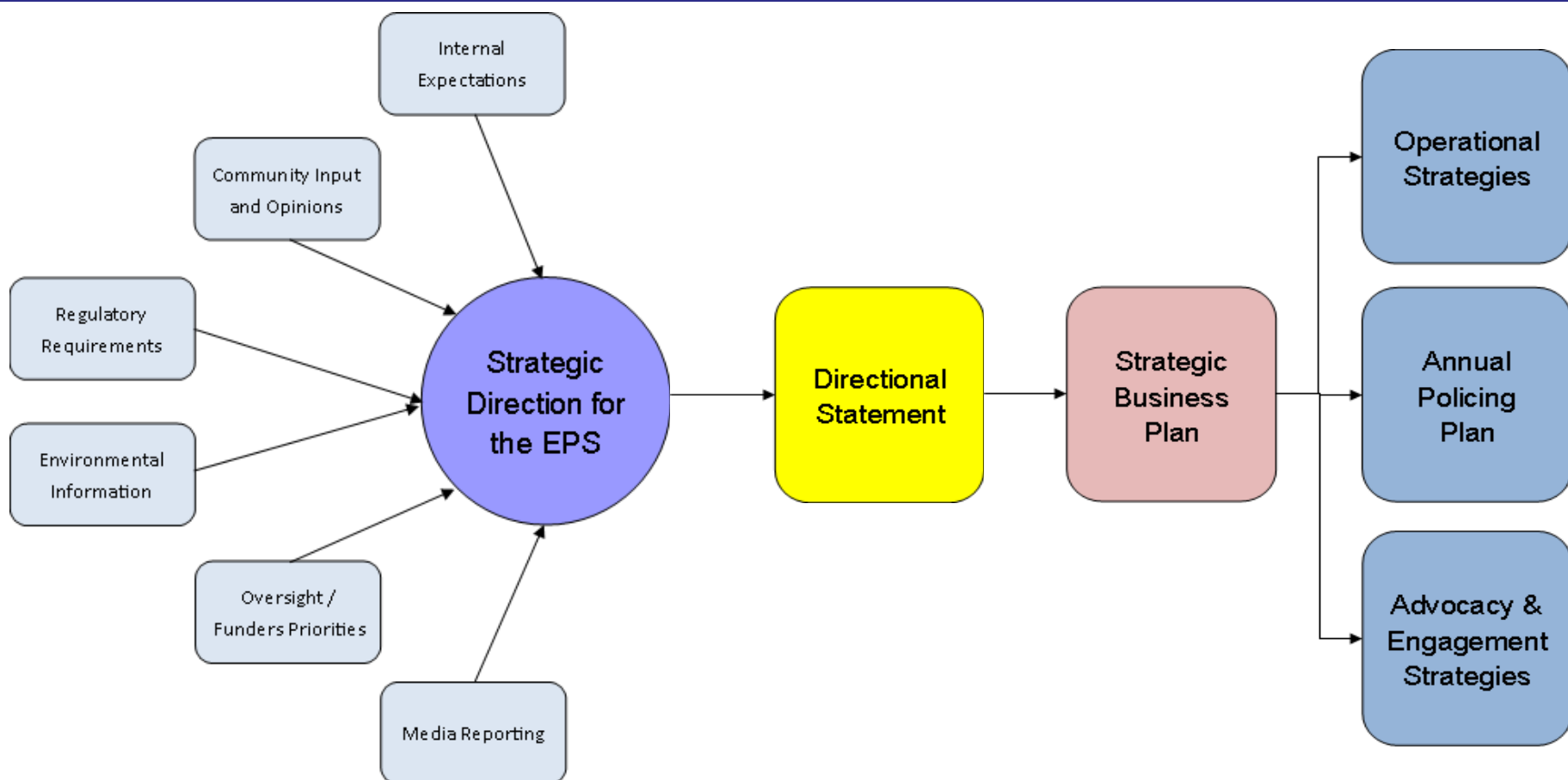
Budget Risk Profile

- Conduct an risk assessment exercise prior to annual budget process commencing
- Used to identify potential challenges and opportunities in that year's process
- Involves both EPS and Police Commission members to ensure board-level alignment

Strategy-specific Risk Assessments

- Significant new / changes to strategies are evaluated to identify potential challenges and opportunities
- Can be used to monitor progress of new strategies

Linking SRM and Strategic Direction



Setting the Strategic Risk Context

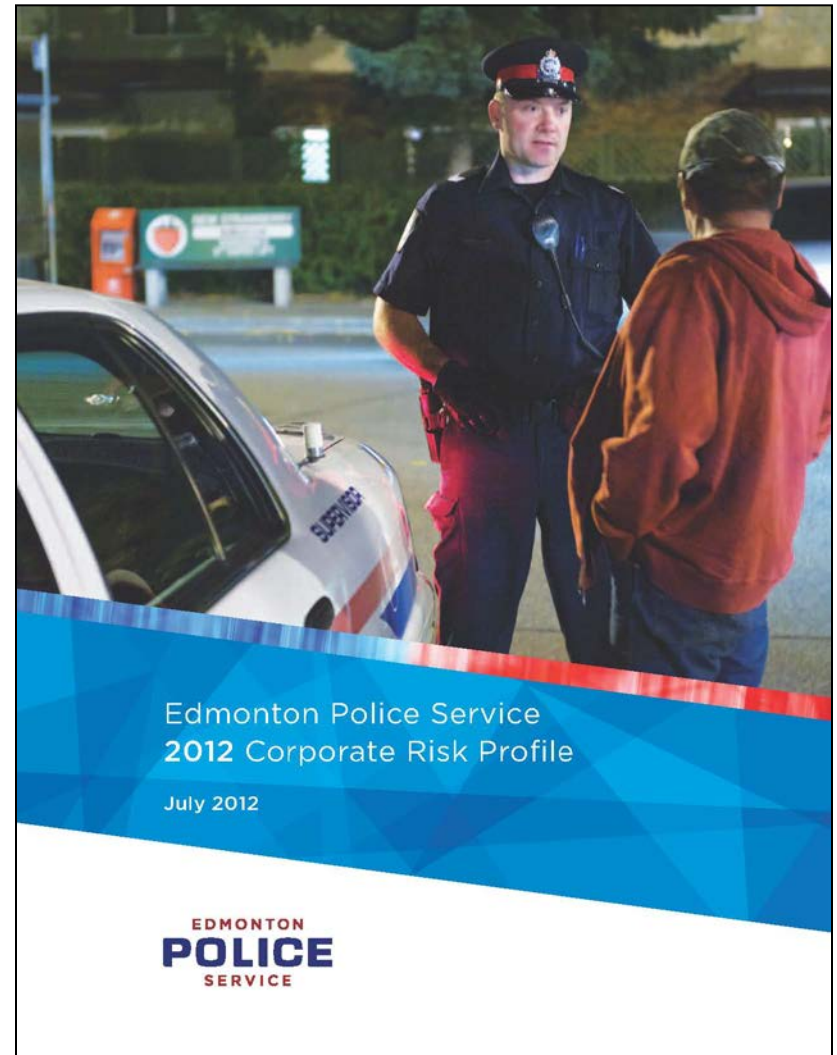
Strategic Risk Assessment

Strategic Risk
Communication

Strategic Risk Treatment and Monitoring

Driving Internal Strategic Accountability

- Strategic Risk Assessments used to develop risk monitoring and management plans
- What gets measured gets managed
- Regular reviews of progress against targets provides clear evidence for performance reviews
- Performance reviews tied to performance pay – can use to drive behaviour



Driving External Strategic Accountability

- Strategic Risk Assessments identify who *really* owns the risk
- Provides a tool to discuss responsibilities with external partners
- Helps to return accountability for political decision making to the politicians
 - You get what you pay for
 - Decisions on priorities must include discussions on risks and opportunities

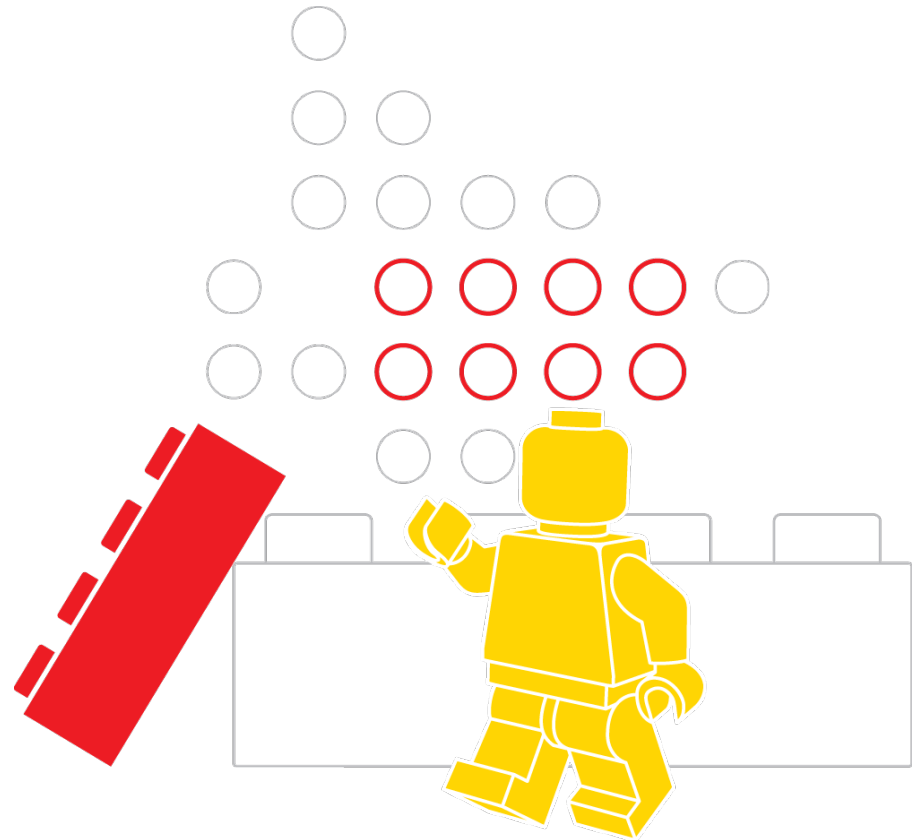


Creating Value for the EPS

- Many Canadian Police Services facing budget freezes, reductions
- Risk-focused discussions on resource reallocations
 - If we do this, what does it mean?
 - If we don't do this, what does it mean?
- In 2012, EPS was able to:
 - Realign \$6m within work areas
 - Reallocate \$4m within EPS

LEGO Group

Case Examples of Creating Value



Handling Strategic Risks - Creates Value

Case	Risk	Handling	Captured Value
Competitor Infringement	We loose sales due to strong launch of directly competitive (copy) product	<p>Market watch to note who is doing what and when</p> <p>Defined "DEFCON" 1-4 responses from focused marketing expansion through add-on launches to direct price cuts</p>	<p>Enable actions "in due time"</p> <p>Limit/hamper or destroy success of competitor launch and protect "our" construction toy core category</p>
Reversing outsourcing	Outsourcing manufacturing not effective, and needs to be "reversed"	<p>Monitoring partner performance to know when to act</p> <p>Enact carefully planned "Apollo 13" insourcing project</p>	<p>Almost 80% of supply had been outsourced, yet we were able to re-capture this without losing supply volume</p>

Knowing our Risk Tolerance and Exposure

- Creates Value

Case	Risk/Opportunity	Handling	Captured Value
Manufacturing capacity planning	Growth potential not materialized due to limitations on supply chain investments	<p>Close monitoring of sales vs. plans</p> <p>Tactical scenarios to define investments needs to materialize above plan growth</p>	<p>Aggressive planned growth 10% turned into 20% actual growth over past 5 year period</p> <p>Profits have grown 32% annually</p>
Enabling massive product launches	<p>In novelty focused business, being able to massively launch new product</p> <p>The price tag on a "Big Bang" launch exceeds 100 mCAD up-front investment</p>	<p>Product and concept testing as well as market feed-back to validate success</p> <p>Highly scalable planning enabling top-line 100% above plan</p>	<p>Successful launch of big bangs</p> <ul style="list-style-type: none"> • 2011 Ninjago planned at 240, sold 436 mCAD • 2012 Friends planned 140 now (capped) at 362 mCAD

Managing Business Project Uncertainties - Creates Value

Case	Issue	Handling	Captured Value
From worries to actions	Intangible worries held amongst project participants "steal" energy from team	Driving explicit identification of risks makes these tangible and hence manageable	Energy and focus "back in team" Risks addressed and discussed with management in time
Benefitting from opportunities	Focusing solely on what can go wrong "steal energy" from team	Allowing team to imagine far-above target performance, and what it would take to achieve it – gives energy	Massive energy booster to the team (Rare) re-scoping to avoid risk "A" and benefit from "X"
Trust	Performing as promised builds management trust	Knowing and communicating performance range	Managerial trust for subsequent projects

Scenario Testing Strategies – Creates Value

Case	Strategy	Impact	Captured Value
Re-framing defined strategy	Emerging Market entry	Focus on scalability, adaptability seen as (new) important component	<p>One-size-fits-all does not work when entering/building new markets.</p> <p>Turkey is different from Malaysia</p>
Up-front addressing issues	HR Strategy	Issues identified were seen as real opportunities as they are being addressed in time	<p>HR strategy directly strengthened to address issues of “diversity” which were originally seen as potential risks</p> <p>HR strategic framework more flexible/robust</p>

Summary

Questions?

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