Evolving Risk Management: Risk-Enabled Performance Management

GHBER
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Business is about balancing risk and reward to create value

Companies are re-evaluating how they manage this balance

*Risk-taking is fundamental to economic reward – the challenge is to recognize which risks differentially impact business outcomes and transform how those risks are managed in order to best protect the business, enhance performance and drive value creation.*

This requires companies to find innovative and effective ways to
- Grow revenues and market share
- Optimize performance
- Protect their organization
The key to the future is linking risk and performance management
A shift from enterprise risk monitoring to risk-enabled performance management is underway

Leading practices
- Used to measure and drive performance
  - Integrates risk and performance management
  - Directly links key risks to performance drivers
  - Enhances risk analysis using data analytics
- Provides forward looking insight
  - Defines future trends and predictive indicators
  - Expands consideration to emerging risks
  - Allows scenario analysis and stress testing
- Action and results orientation
  - Risk & uncertainty are key elements in strategic and operational decision framework & management processes

Historical focus - practices
- Independent enterprise risk identification and assessment process
- Designed to provide risk reporting to Leadership and the Board
- Process independent of operations and performance management
- Evaluation of current exposures based on historical perspectives
- Compliance and/or informational focus

Integrate risk and performance management to create a competitive advantage

Risk insight and performance improvement

Risk-Enabled Performance Management

Foundational ERM
Risk identification and reporting

Value Protection
Business Performance
Value Creation
Risk-enabled performance management fundamental concept
REPM considers how uncertainties affect processes and outcomes

Risk Enabled Organization – Applied Risk Insights w/in Business Processes

Sources of Uncertainty

External Uncertainties
- Market volatility
- Regulatory
- Supply chain
- Competition
- Physical environment

Internal Uncertainties
- Strategic
- Process
- People

Business Process Suites

- Strategic Oversight and Planning
- Business Level Planning and Budgeting
- Operational Execution
- Control and Compliance Monitoring and Assurance

Organizational Characteristics
- Risk line of sight from Board to operational execution
- Risk activities linked to P&L, balance sheet and key business metrics
- Uncertainty management embedded w/in processes
- Business processes aligned via risk appetite
- Risk profile rationalized and optimized
- Capital and resource allocations are risk-adjusted
- Business processes and enabling technologies aligned

Improved Business Outcomes

Growth
- Revenue
- Profitability
- Cash Flow
- Market Share

Optimization
- Capital efficiency
- Resource allocation
- Process
- Cost management

Protection
- Brand
- Assets
- License to operate
## Risk-enabled performance management characteristics

### What is different compared to today's risk management

| Board and board committee meeting | Articulated risk appetite integrated into strategic considerations  
|                                 | Major investment recommendations include robust qualitative and quantitative risk analysis  
|                                 | Board oversight establishes tone from the top relative to risk management expectations  
| Executive-level strategic planning | Portfolio risk exposures levels monitored and integrated into decision processes  
|                                 | Emerging risk analysis and indicators linked to strategic plan ‘pivot points’  
|                                 | Risk/reward ambitions and tolerance ranges defined  
|                                 | Enhanced analytical risk identification processes applied to remove inherent biases  
|                                 | Risk ‘line-of-sight’ extends from strategic plan through execution and monitoring and results  
| Operational and business-level planning | Multi-year and annual operating plans ‘tie’ financially on a risk adjusted basis with strategic plan  
|                                 | Operational planning templates include risk sensitivities and stress testing  
|                                 | Capital allocation is ‘risk adjusted’  
|                                 | Robust operational processes in place, i.e., disproportional or potential cascading exposures  
|                                 | Driver analysis and predictive analytics integrated into risk management planning insights  
| Monthly/quarterly performance reviews | Risk tolerance metrics integrated into operational reviews and performance actions  
|                                 | Ongoing operational performance feedback incorporated into risk trend and indicator analysis  
|                                 | Risk management activities and expectations closely monitored to assess relevance and impact  
| Continuous performance management and reporting | Effective technology enabled reporting  
|                                 | Continuous monitoring to track and forecast emerging risk areas  
|                                 | Consistent reporting templates and approaches  
| Continuous compliance and risk assurance activities | Monitoring functions aligned in an integrated risk operating model  
|                                 | Monitoring activities linked to clear governance and early warning indicators/system/processes  
|                                 | Continuous and aligned risk and controls framework |
Questions
Presenter Bio – Craig Faris

Craig Faris is a Principal in the Firm and is the Americas Risk Advisory Leader for the Oil & Gas/Chemicals Sectors. He was previously the Global Lead for Emerging Risk Services and was responsible for developing EY’s Risk-Enabled Performance Management approach. He has more than 20 years experience in risk management across a broad spectrum of industries, which he brings to bear in helping clients achieve top tier business results through effective risk management.

Craig has worked with numerous global corporations in creating top to bottom risk management programs and supporting capabilities, linking Board governance and oversight of risk with executive leadership and operational execution to enhance business performance.

Previously, Craig was a risk leadership Partner with both Accenture and Oliver Wyman, and was a leading force in integration of risk management with strategy development, analytics and operational practices. Prior to his consulting career, he was the Global Director of Enterprise Risk Management for Wal-Mart, and also held numerous positions at Amoco Corporation, such as Global Exploration Coordinator, Director of Strategy, Director of Process Improvement, Geotechnical Operations Lead and Exploration Geologist.

Craig holds an MBA from the Kellogg School of Management, an MS from Virginia Tech and a BS from the University of Missouri.