



ERM PROFESSIONAL INSIGHTS

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Effective ERM Can Promote Stakeholder Balance

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David serves as Director, Enterprise Risk with ISS Facility Services, and has delivered strategic ERM solutions for over 15 years that grow and protect enterprise value. David has been a member of the ERM Initiative Advisory Board since 2010 and ERM Roundtable guest speaker many times since inception in 2004. ISS is a leading workplace experience and facility management company. In partnership with customers, ISS drives the engagement and well-being of people, minimizes the impact on the environment, and protects and maintains property.

On August 19, 2019, the Business Roundtable (BRT) announced a new Statement on the Purpose of the Corporation (see [Statement](#)) that noticeably expands the point of focus regarding the purpose of today's corporation to be well beyond merely serving shareholders. The Statement was signed by 181 prominent CEOs who publicly committed to lead their companies for the benefit of *all* stakeholders – not just shareholders – to now also include customers, employees, suppliers, and communities.

The BRT Statement on Corporate Purpose generally elicited a number of responses:

1. Those who believe it's about time that corporations expand their focus on more than serving shareholders.
2. Those who believe the statement represents a dereliction of Fiduciary Duty that detracts CEOs and Boards from what they should be doing – creating value for shareholders.
3. Those who believe that signing the Statement is merely a marketing ploy resulting in no real substantive change.
4. Those who believe that only government intervention and regulation can hold CEOs accountable for serving the interests of various stakeholders.

With different special interest groups weighing in with their opinions and academics analyzing and reporting on benefits to stakeholders of companies led by CEO signatories, one could conclude that understanding the purpose of a corporation is a serious matter affecting the well-being of a society and the enjoyment of prosperity.

In light of this attention, might the Statement provide a unique opportunity for ERM to help business leaders think more broadly about risks on the horizon? Let's explore how the Statement might be a catalyst for teasing out a broader range of risks that might be currently unknown and potentially blindside the organization.

NC State ERM Initiative Advisory Board

NC State University's [ERM Initiative Advisory Board](#) composed of ERM leaders from major corporations recently contemplated BRT's Statement on the Purpose of a Corporation with a notion of sharing ideas for balancing the interests of all stakeholders in the pursuit of value. Whether a corporation articulates maximizing profit for its shareholders or maximizing benefits of various stakeholders, an effective ERM program offers corporate leaders strong support for achieving balance for both stakeholder benefits and shareholder profits by generating a more holistic, enterprise-wide view of risks that might impact the achievement of multiple objectives – objectives related to customers, employees, suppliers, and communities rather than objectives focused solely on generating shareholder value.

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ERM leaders should explore new ways of engaging business leaders about how to demonstrate balance of benefits to a number of different stakeholders, not just benefits to shareholders.

Call for an ERM Response

According to COSO's 2017 ERM Framework entitled *Enterprise Risk Management Integrating with Strategy and Performance*, ERM is defined as:

The culture, capabilities and practices, integrated with the strategy-setting and performance, that organizations rely on to manage risk in creating, preserving and realizing value.

The practice of ERM is most successful when it is approached holistically as a creative endeavor, and we urge practitioners to explore new ways of engaging business leaders about how to demonstrate balance of benefits to a number of different stakeholders while supporting decision-making about strategy, allocation of capital and performance. Today's best companies are celebrated because they already achieve a modicum of such balance and enjoy better corporate reputations that generate expectations of better performance by stakeholders.

Considerations for How ERM Can Drive Balance in Corporations:

- **Elevate purpose and mission**

In discussing BRT's statement, Advisory Board members shared stories of their companies changing focus to purpose and mission. In doing so, those companies captured employee perspectives about what is most important along with key insights from customers, suppliers, community leaders and shareholders that transformed those organizations to balance benefits to stakeholders better than before.

ERM considerations: Focus on the risks that threaten the purpose and mission of a corporation in addition to risks to strategy and business objectives. Endeavor to answer questions about whether purpose and mission are being supported:

- Does our operation adequately support our purpose and mission?
- Does our strategy drive our purpose and mission?
- Does our culture promote our purpose and mission?

Corporate executives, strategies and business objectives will come and go. Mission and purpose should be consistent! Let ERM become known for promoting and defending corporate mission and purpose!

- **Analyze and report on organizational culture**

Culture's impact on strategy and performance has garnered significant attention in the last several years particularly in COSO's 2017 ERM Framework and NACD's *Blue Ribbon Commission Report: Culture as a Corporate Asset*. However, ERM efforts have been reluctant or slow to incorporate culture analysis into program capabilities. If the organization's culture does not support a broader view of stakeholder focus beyond merely shareholders, it is likely the organization may overlook other important risks that might impact the success of the organization.

ERM considerations: Integrate data-driven culture analysis into ERM activities and seek corporate buy-in for understanding the current-state culture while articulating a

Consider whether operations, strategy and culture create risks to mission and vision.

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As executives prioritize risks, consider having them assess the impact of individual risks to each of the entity's key stakeholder groups.

desired future-state culture necessary to drive balance among stakeholders. Report regularly on such analysis to facilitate alignment with purpose and mission, strategic objectives, leadership decisions and organizational design. Utilize pulsing technologies to understand real time perspectives of various stakeholders and whether initiatives are meeting objectives.

- **Develop new methodologies to shape a broader range of objectives beyond growing shareholder value**

Corporate leaders should establish objectives that at least identify, and perhaps even seek to balance, stakeholder interests in major decisions.

ERM considerations: ERM leaders should experiment with new methodologies that incorporate innovative concepts that make benefits to all stakeholders more transparent as they lead executives through risk identification and risk monitoring activities:

- Pilot "Shared Value" analysis related to capital decisions in order to highlight prospectively the risk /reward trade-offs related to balancing objectives. Michael E. Porter and Mark Kramer coined the term in a 2011 *Harvard Business Review* article entitled, "Creating Shared Value":

"Shared value enhances the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates. Shared value creation focuses on identifying and expanding the connections between societal and economic progress."

Their work has led to the creation of the Shared Value Institute (www.sharedvalue.org)

- Test risk scoring methodologies that assess risks to workers, customers, communities, environment and shareholders while prioritizing risk responses using algorithms indexing stakeholder balance.
- Experiment with artificial intelligence (AI) and machine learning to create a system of measurement and metrics that inform managers of both benefits and risks to promote balance in decision-making about stakeholders. For example, as data lakes are being utilized to protect supply chains by identifying threats to layers of suppliers, stakeholder benefits similarly may enjoy heightened awareness through creative deployment of data lakes.
- Incorporate metrics developed by organizations devoted to stakeholder capitalism. Just Capital (www.justcapital.com) for instance, supports a hierarchy of objectives tied to public surveys about impact on different stakeholders. Corporate risk appetites and risk assessments might be influenced by public opinion weightings published below:
 - Workers (35% weight)
 - Customers (24% weight)
 - Communities (18% weight)
 - Environment (11% weight)
 - Shareholders (11% weight)

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ERM Always Reinventing

At the heart of today’s debate about the purpose of a corporation is a call for different thinking about our society and its engine of capitalism. The practice of ERM is uniquely positioned to contribute to balancing the interests of all stakeholders even while maximizing shareholder value. We encourage ERM practitioners to be innovative in developing, testing and reporting on new methods that make balancing benefits and various risks to all types of stakeholders more observable. ERM needs to keep reinventing itself in order to meet today’s challenges.

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