

ERM VIDEO INSIGHTS

Transcript of Steve Zawoyski and Bonnie Hancock *Emerging Trends in ERM*

Bonnie: Hi, I'm Bonnie Hancock, I'm the Executive Director of the Enterprise Risk Management Initiative at North Carolina State University's Poole College of Management. I have here with me today Steve Zawoyski, partner with PWC out of Minneapolis and Steve heads up the Enterprise Risk Management capability practice for PWC. Steve, thank you for coming and agreeing to talk with me today. I understand you've been working with a lot of different clients, all range of spectrums, you told me in terms of your engagements, but I really want to focus in on, kind of, what trends are you seeing, what are you seeing more companies interested in doing with their ERM processes now?

Steve: Sure. Thanks for having me, it's always exciting to be here on campus and share my insight with you. So as you said, Bonnie, when we think about ERM and what we're seeing out there, we are seeing a lot more organizations that are embracing the concepts of risk management and enterprise risk management. And so that really is the full spectrum companies that are just starting up and want to really make sure that as they start an ERM program, that they do it in a meaningful way that makes an impact to the organization. We believe that most organizations feel like ERM starts with the risk assessment. But I also think that there's a need to really understand what's the mandate for enterprise risk in an organization. So we have a lot of organizations kind of step back and say, before we jump into a risk assessment, let's really understand what value we are trying to create for an organization and I think those that take that time out in the beginning really can be successful because they have set the expectations for their stakeholders and they understand what's at stake, and they are able to deliver on the value that they've promised. And that kind of transfers into what else we see out there, is organizations are being challenged that if I have a program, how do I enhance the value? We hear a lot of executives share with us, shouldn't I be getting more out of this? So how do we improve and create value and it not only goes back to understanding what the benefits are but then enhancing our capabilities. So we are spending a lot of time with organizations to help them enhance those capabilities. One area that we think is really going to take off in the future here is data. You know every place we go, everything is revolving around data now and types of tools and just the access we have to data is just compounding and so how are we using data? In the area of ERM we see a lot more organizations, an example would be not only internal data but using a concept like strategic data links to pull data from the outside to help us understand those risks and provide insight to our executives on those risks. We have identified those risks, now how do we create insight on that risk not only using data on the inside but accessing these strategic data links and creating insight through that manner. Just a high level view of the kinds of things we are doing.

Bonnie: Right, right. Maybe if I can back up even, you know I think a lot of people are interested in this idea of the value proposition in ERM and maybe if you could give me some examples? Whether it's from some of those organizations that are just starting out saying, well what is the

value you want to get from ERM? Are there some concrete or more tangible examples you can give me of ways organizations say this is the value I am going to get from ERM?

Steve: I want to simplify it. It really is how organizations explore what the value is, and going through with management. So we always start with the risk assessment, I think sitting back and saying with the management team, what are the expectations that you want from ERM and a lot of them won't have an answer because they don't spend a lot of time thinking about, but the board asks us to do that, right. So you know, when we think about an organizations purpose and what they are trying to achieve, you know how can we fit into that? We've seen organizations that when they think about the value, it's about creating the capabilities within the organization. Sometimes they call it the muscle. Creating the enterprise risk management muscle. And that's not always about avoiding risk, but we have to be risk takers, so how do we understand the risk that we are taking, how do we make sure we have the right capabilities. And that's one way of creating value. But it's not dependent upon the ERM team or the leader or an individual doing that. We are starting to build those capabilities within the organization and creating that culture that we want in the organization for the risk. So that's one value proposition, but it really has to come from understanding and helping set the expectations with management. Because if you leave it up to them to determine what the value is, you're going to have every executive or every leader is going to set their own. On the other far spectrum of that, we see organizations that are working in very challenging times, the speed of change, the disruption that's occurring and so they are looking for an organization to be more resilient, how do we adopt to the change, how do we coordinate what we do, how do we make sure all the pieces are coming together and risk management has to plan that, so it's not always thinking about the bad things that could happen but switching that conversation to what we are dealing with executives, what do we need to execute upon our strategy, how do we do this stuff, where are we short then how do we make sure we get the resources allocated. That is risk management at the same time, right.

Bonnie: It takes a more positive spin to start with. With what has to go right for us? What do we need to do well to be successful with this strategy and then once people focus on that, like you said, they can start to have a better view of where they're short, or where they're falling short of having that capability that they need?

Steve: A lot of time we talk about risk events, we talk about this could prevent us from, its intuitive in management, their job is to get things done, so it's not intuitive to think, well what could cause you to fail. Why am I in charge? Nothing is going to cause me to fail like if I wasn't in charge we'd fail, but I'm in charge. But then you get to that layer of, and we may have a different conversation with them but we are still getting risks. We go back into our risk mindset, but we are still getting risks. I am seeing a lot of organizations that are much more focused on that, how do we help the organization achieve its strategies, not what can prevent it from, it's the inverse, it's just a different language.

Bonnie: Right, I think people are more receptive to that language.

Steve: Absolutely. In today's age where disruption is occurring, we're going to have them move very very quickly, the things that we do are not always going to be successful. We've got that resiliency concept, we're taking hold with those executives about how is ERM going to help us become resilient, and achieve our goals within the organization.

Bonnie: which kind of fits right in to my next question. We talked a little bit offline beforehand about strategy being the buzzword and I know when we do executive education, everyone wants to know, well how can I be more strategic, how can I be involved in strategy. What are you seeing out there that needs to be the connection of ERM and strategy and the interest in companies in making that connection better?

Steve: When we think about strategy, there's different ways that you can connect into the strategy and I think when organizations develop a strategy, there's individuals in the organization that are looking into the environmental scans and I always say I hope they are thinking about risks when doing that. But if not there's an opportunity in risk management. What are the risks associated with strategic choices that we can choose from? Do our missions align? Do we have the capabilities to do the things that we are doing? What's the upside and downside of these strategic choices? So I think that's a way of being more strategic and relevant. A lot of times we got people in the organization that are doing that, if we have confidence that they are doing it, then hey we are managing risk. Let's take credit for it, I don't feel like I have to be responsible for it as an ERM leader, right, because it's embedded. The second piece is where, ok we have chosen a strategy, so what are the risks associated with that chosen strategy and the execution of that strategy. So I think that's an area we focus a lot of time on. And I always talk about in what we do, are we trying to figure out all the enterprise wide type risk, or the enterprise level risks. And I do think that you need, as a leader you're going to scope, because if you're not clear in setting those expectations, you might be focused on enterprise level risks and your leader wants you to do enterprise wide risks and so you kind of got to reconcile those. So I think about that strategy, you really have to understand the strategy, as a risk leader, you don't have to be a strategy expert but you need to understand and you need to go collect and talk to people about how their executing that strategy and that middle section and then the last section of how to be more strategic is helping management think about when do we change our strategy? What has to change or are things changing that would cause us to rethink our strategy. Hopefully working with the strategy leaders, you'll decide when to do that. But I think all of that is a way of kind of thinking this to strategy and you know, it's really about when we think about being strategic, a lot of people will comment on what are the strategic risks. What's financial, operational strategic risks. I think sometimes they overly onto one another but how are the risks you're identifying link to our strategy is probably a better way of looking at it from a risk profession. Do these matter to our strategy, I don't care if it's financial operations technology but how do we link them to our strategy. And I think that's a way that organizations can be more strategic and if you're going to do enterprise level it's about the enterprise objectives. If you're at a business level, it's at the business objectives that you're identifying risks against.

Bonnie: I also hear from a lot of folks that, you know one of the things they feel like they're the most deficient in, in their ERM process, is key risk indicators. Forward looking, do you get requests for help in developing those?

Steve: Yeah, we hear it all the time, obviously. You know everybody, I think it's a buzz word out there I think everybody, well the next step is a key risk indicator.

Bonnie: Right, I mean do you think it's relevant and should it be something their focusing on?

Steve: It is really relevant. I'm impartial to calling it key risk indicator because I think when you try to relate to management, they are driving the performance of the business. And I think the key risk indicators, if you've done a good job of truly identifying your risks that tied to a business objective, you got typically performance indicators associated with that objective. You could use that at key risk indicators at the same time, so if we want to grow at ten percent, you're going to manage that growth percentage. And so that's an indicator of how successful we are in managing that. If we're rolling in at only five percent, there's risks that are driving that. I think if you can become more sophisticated, if you can drill down even more so and start identifying key risk indicators, but I think the initial early step is let's tie this to the performance indicators and they are a proxy for a key risk indicator. I think there's always plenty of ventures out there that can save organizations that they can use to manage a business. Let's start with those first before we start creating new ones and saying, oh by the way you have plenty of stuff to manage your business, I'm going to now give you key risk indicators. But I wasn't asking for those, I was asking if I can manage my business, then I'm not that worried about key risk indicators. So I think that it's something that intuitively organizations risk leaders want to jump to because they think that's great value but I think if you really understand the business and put yourself in the business person's shoes, you should at those before those indicators and build off of those.

Bonnie: See how you can use those to give you that look and I think what some people struggle with as well aren't performance indicators, backward looking, when they should be forward looking, but I guess you're suggesting if that's what the business is focusing on you can use those and some of them do give you some forward insights as well.

Steve: I think the key risk indicator is a business performance indicator, you know operating indicator, we call KRI's and so forth, they can be both forward and backward looking. I do think when people generically think about a key risk indicator, it's about a predictive. They are trying to look forward, and I actually think that's a really hard thing to do.

Bonnie: I think that's why companies struggle with it.

Steve: They struggle with it, I think if you focus on those performance indicators and what are then inputs you then automatically get to some of the drivers of those performance indicators. So business understands those, those are levers, they are managing those business indicators so they know what levers to pull, in order to help drive that performance.

Bonnie: Yeah, that makes sense. Just final question, just what do you see as kind of the next frontier? Where is enterprise risk management going in the future?

Steve: It's a very open ended question.

Bonnie: It is.

Steve: What I'll try to really kind of drive on is where the advanced practitioners are heading. And I think where they're driving that is building those capabilities in the organization and helping to build those capabilities but help to drive that towards the performance of the business. So it's not we just do an annual risk assessment.

Bonnie: So embedding it?

Steve: Embedding it into the business, not because it's risk, but because it's performance, performance and risk are hand-in-hand, and kind of mixing those words, doing that at the management level. I think, the other stakeholders, the boards, I think boards are wanting more insight. A lot more insight to that and I think that will enable that at the same time. It's no longer about just doing a risk assessment, they really want to engage in the conversation, and really understand the risks but also the opportunities, the choices that we're making and why we're making those choices and how we're allocating our resources in those areas of need. So those are two areas I think are driving into the performance of the organization and then driving into much deeper conversation at the board level.

Bonnie: Great, great insights, thank you.

Steve: My pleasure, always happy to be here, thank you bonnie.