NCSU
Laurie Brooks Interview Segment 1

Q: Interviewer(s)
Brooks: Laurie Brooks

Branson: Hello. I'm Bruce Branson and I serve as the Associate Director of NC State's ERM Initiative in the Poole College of Management. I'm speaking today with Laurie Brooks, who is a current member of the Board of Directors of Provident Financial Services. Laurie recently retired after serving as Vice President for Risk Management and as Chief Risk Officer for Public Service Enterprise Group in New Jersey.

Laurie has been instrumental in leading the enterprise risk management efforts at PSEG and in providing leadership overseeing an ERM implementation at Provident Financial Services.

Laurie--thank you for joining us today. My first question deals with understanding the difference between ERM and other types of risk management activities. Organizations often struggle with understanding how enterprise risk management is different from the risk management processes that are already embedded in their organization. May I ask you to provide your insights to help people understand how the objectives of ERM are related to, but really different from, traditional forms of risk management?

Brooks: All line managers and employees manage risks every day. In fact, I used to like to tell people, when I was trying to describe what risk management is all about—every single employee, even your secretary, when they get up in the morning and they see that it's snowing outside, they have to make a risk decision. Is it safe to drive to work? What are the alternatives? What could I do instead of driving to work? Some people are even responsible for monitoring and planning for risk management.

But what ERM attempts to do is to collect the information about these activities, and to analyze it and to look for connections, correlations, concentrations of risk, to help senior management allocate resources and prioritize those resources for the management of the risks that could impact the company's mission and strategy. So you'll often be asked—you know, well, you've got a list and it's got 300 risks on it. Well, how do you prioritize those? Some of those risks could be managed at low levels within the organization. But what are the risks that bubble all the way up to the top, where they have the capability, anyway, of impacting the overall strategic plan and mission of the organization?

The second thing that I think ERM does with these risks is to start from the opposite end, and that is to develop a thorough understanding of the company's mission and strategies, and proactively identify the assumption, the embedded assumptions, and/or scenarios that could result in uncertain outcomes that could either derail the strategy or that represent missed opportunities.

Q: Many organizations, when they're engaged in their risk assessment process, think about risk on two dimensions: the probability of occurrence, and then the potential impact to the organization. We've talked with some organizations that have added additional dimensions to that process, such as velocity or organizational skill at managing a particular risk. What are your thoughts regarding these additional dimensions? Do you think they're value adding, or do they tend to over-complicate the process?

Brooks: I think they're actually very helpful, largely because we, as a culture, in the West in particular, are not well educated on the terms "probability" and "likelihood," either from a mathematical standpoint, or even just from a common understanding of what we mean when we say something has a 50/50 chance, for instance, of occurring. And so organization skill at managing risk, sometimes referred to as agility, sometimes referred to as the degree of control or the appropriateness of the control environment, is a key element and often helps to gain a better understanding of probability of occurrence. So when you ask somebody to think about, "Well, what could you do about this? Or what are the controls that we have in place that would prevent this?" the light kind of goes on that says, "Gee, we really have a very good control environment. So even though this is out there in the external environment and it's happening to other people, it might not happen here, and this is why, which then lowers the probability of occurrence for us, as opposed to the outside world."

Velocity and activity metrics, I think, also do the same. How soon will this risk pose a serious threat to our business? Is it coming at us fast? Is it coming at us slow? Is it here now or will it be here next year, but only if something else occurs? What are the accelerants? What are the things that could speed it up? Activity. Is the risk being actively managed today? Or is it a risk for which contingency plans need to be maintained and updated and that need to be monitored for a change to active status?

And we talked about that—this a little bit this morning. I worked for a company that had nuclear plants, and the activity that's occurred post the tsunami in Japan is—has now moved that risk from an inactive risk to an active risk, because what is happening there will impact anyone who operates nuclear facilities. So while the concern for an event occurring anywhere in the world has always been on the company's sort of top ten list, it's been there as an inactive risk that didn't need to be managed actively. Now, it will need to be managed actively.

Q: We sometimes hear that there's a fear among executives that if they formally seek risk information from members of management, through a variety of means—workshops, surveys, interviews, and so on—they're going to end up with hundreds, if not thousands, of potential risks. They're really concerned about the resource commitment that will need to be made just to track all of these risks; and, as a result, they seem reluctant to start the process at all. What techniques have you seen that might help organizations effectively manage the sheer number of risks that might be initially identified?

Brooks: I think senior executives still need to use both a top-down and a bottoms-up approach. We had conversations earlier today where we were talking about the fact that sometimes that bottoms-up approach, reaching down to the line management in the facilities, that identifies emerging risks that might not even occur to people at the top. On the other hand, people at the top are more familiar with the current strategic plan, mission, and objectives of the organization, so they can more readily see what are the things that might derail these strategies.

So while your initial risk identification process might identify several hundred risks, I think it's also important to keep in mind that some of those risks can be managed at a fairly low level, organizationally, and what senior management really wants to do is look at the ones that bubble up to be strategy derailers, look for things where there's a pervasive groupthink about assumptions. And so everybody's—everybody's happy with this plan because they're all assuming the same thing. I mean, well, what if that's not what's going to happen?

And then the other thing to look for is seemingly little risks that are being fought in an isolated fashion, but by many groups, on many different fronts. And so each guy thinks, "Well, I'm the one who has to deal with this little risk, and I'm the only one who has this risk," and meanwhile, you find out that it's all over the enterprise, and so now it's really a big deal that needs to be looked at more strategically.

Q: Great. Thank you, Laurie, for talking with us today. For our audience, I'd like to encourage you to explore our ERM Initiative website further. We have several resources under our articles section that provide additional thoughts on boards of director and audit committee issues related to risk oversight. The website also allows for searches on any topics related to ERM. Laurie, thank you again for your willingness to share your thoughts with us today.