Interview Paul Zavolta Segment 1
Engaging Business Unit Leaders in Discussing Enterprise Risks
October 2012

Interviewer:	**Bruce Branson, Associate Director of the ERM Initiative**
Interviewee:	**Paul Zavolta, Director of ERM, Alpha Natural Resources**

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 am speaking today with Paul Zavolta who is the Director of Enterprise Risk Management at Alpha Natural Resources where he has been instrumental in leading the enterprise risk management function.

Paul, thank you for agreeing to speak with us today.

Zavolta: Thank you.

Branson: My first question concerns the degree to which an organization's risk management program requires formalization. We've observed that management often believes that they are engaged in enterprise risk management, even though there's no definable process. For example, there seems to be no documented process for how risks are to be identified, prioritized, and addressed. In essence, they believe that their culture of openness, frequency of daily interactions within the executive suite, and their discussions about specific management decisions effectively identifies their most significant risks. What would you say to help them see the limitations of this approach to risk management?

Zavolta: I think, from our perspective, we did an initial framework and initiated enterprise risk management to our company about a year and a half ago. As part of that process, when we did a deep dive into risk identification and eventually came up with our top risks, the value added proposition that some of the top or senior executives found from ERM and the process that we specifically used was twofold. The first was, once the key risks identified, we did deep dive through a workshop process. They got to take some time, executives being busy, and as a team, look on a collaboration basis at a top risk, and really, the deep dive allowed them to look at things that—what aren't we doing? Is there anything else we should be doing? And it gave them assurance that, once they went through the process, there were actually some things that they could do incrementally to treat that particular key group risk.

One C-level suite person actually indicated that, in addition, in provided him, from the risks that his team looked at, accountability. He said, "Now, I'm accountable for this risk. I've done a deep dive. We've done a deep dive on it. We have these treatment plans in place. And now I'm accountable to go out and execute these treatment plans related to this particular risk."

Branson: Paul, organizations that have embraced ERM process often use different processes to identify potential risks that could affect their organizations. Some have interviewed senior management and board members individually to obtain information about potential risks. Others have conducted management workshops, where senior executives come together to brainstorm about potential risks and others have conducted online surveys to have individuals respond to various risk questions. What have you seen work effectively and what suggestions would you have for someone who's trying to identify a particular technique for gathering risk information?

Zavolta: Having gone through risk assessment—risk identification and assessment for a couple different companies, what I found that worked most effectively is, with the current company I'm with, was a top-down approach, top down, and bottom-up approach to risk identification that had a broad array of people. And we utilized a workshop format. Essentially, we just had different groups within the organization come together, 10 to 15 people, had an all-day session. Indicated to them before the meeting to bring just a small list of risks that they felt were key in their area or to the company, along with opportunities, potential opportunities for the company. And we just sat in a session and brainstormed. And the interaction among different people within the organization, I think, allowed a good analysis and a good discussion to really filter out what are our key risks.

Branson: We sometimes hear of reluctance for members of management to be completely open or transparent about risks that they face when they're operating their own business units. Have you encountered that? What do you do to help alleviate those concerns?

Zavolta: I think for our company, one thing that was essentially beneficial was the—the embracement, the tone at the top from our key management, our top management, to embrace enterprise risk management, to embrace the process. And that—seeing that from the top and having people who worked for them in a workshop environment, there was really no negativity, going, "Well, I'm not going to talk about this risk or I'm not going to bring this up." Personally, I just feel blessed with an executive management at the company that embraced it to that perspective.

Branson: Thank you, Paul, for talking with us today. For our audience, I'd like to encourage you to explore our ERM Initiative website further. You will find resources there on the role of the chief risk officer or organizational risk champion and it is also fully searchable on other ERM related topics.