NC STATE Poole College of Management

Enterprise Risk Management Initiative

Integration of ERM with Strategy

Case Study Analysis – April 2016

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Introduction

One of the greatest sources of risk for today's companies arises from the context of its strategic plan. While a company's strategy drives its value creation, it also entails risk-taking; when strategies change or new initiatives are implemented, new risks may be introduced or existing risks could change. The greater the degree of integration between strategy and risk management, the more likely it is that a company will be able to successfully implement its strategy.

Enterprise Risk Management (ERM) is an emerging process that can serve many purposes: as a tool for risk management, strategic planning, and identification of emerging opportunities and potential competitive advantages. The purpose of this case study is to provide a description of the processes used by three different companies in different industries to illustrate the ways these companies have integrated ERM in the context of their strategy.

These case studies are based on real life examples of how companies have attempted to better integrate their ERM process within their strategic planning process. The three cases reveal the variety of methods that can be used based on a company's strategic objectives, business model, culture, and maturity in ERM implementation. This report also highlights key takeaways as points of comparison when assessing the level of integration between ERM and the strategic planning and implementation process.

Readers should keep the following in mind:

- ERM personnel can use this document to assess their company's level of integration and discuss how their current ERM process can be improved and be more closely aligned with the strategic planning process.

- The methods of integrating ERM with strategy will vary based on the company. Just as ERM requires customization to suit a company's unique objectives, culture, and business model, the integration of risk management and strategic planning also requires a company to consider its objectives and culture before deciding the best way to align the two processes.

Increasing complexity due to industry changes, globalization, and shifts in technology and business cycles can produce more risks related to strategy than ever before. By establishing a close link between a company's strategic planning and risk management processes, management can help ensure that new strategic initiatives are connected to appropriate risk mitigation strategies, that changes in the company's strategic direction are accompanied by timely assessment of new or emerging risks, and that the company is better prepared to identify risk-related competitive advantages.

Case Study: Mitchell Industries

Background of the Organization

Mitchell Industries is a global aerospace, defense and information technology company. They provide a broad range of management, engineering, technical, scientific, logistics and information services. The company was founded in 1985 and has grown organically and through a number of acquisitions. Headquartered in Chicago, Illinois and incorporated in Delaware, the company conducts most of its business with the U.S. Government, principally the Department of Defense (DoD) and intelligence community. The company has 120 locations worldwide, including 72 international offices, approximately 24,000 employees and customers in 150 countries.

Overview of ERM

Mitchell Industries views risk management as critical to its success. Risk management is embedded in many business processes such as executive planning, program / contract management, research and development, etc. However, following the financial crisis, there was an increased focus on risk oversight practices. Credit rating agencies, such as Standard and Poor's, began assessing enterprise risk management processes as part of their corporate credit ratings analysis, and there were signs that new requirements would be placed on Boards of Directors regarding their risk oversight responsibilities. During this same time frame, the company appointed a new board member to chair the Audit Committee who placed an increased focus on the company's risk management practices. Leadership of the organization also began to see the need for a more formal enterprise wide process for managing risk. All of these events led to the implementation of a formal structured ERM process in 2009.

Initially, Mitchell Industries maintained independent ERM and strategy processes that occurred in parallel. As leaders recognized the value of being better informed of and prepared for risk events, steps were taken to align and integrate ERM with the strategic planning process. There are now several points of integration between the two processes to ensure they are in sync and reflect the priorities of the organization as a whole.

Integration of ERM with Strategy

The next few paragraphs highlight the details of the ERM cycle, strategy planning process and their integration.

ERM Cycle

The company has an annual ERM cycle which is facilitated by the ERM team. The ERM team consists of three members, the Director and two analysts. They are the link between the members of the organization responsible for risk management and the enterprise risk management process.

The annual process begins with the identification and assessment of risks in the January / February time frame. The ERM team administers a survey to Vice Presidents (VPs) and selected

Directors (direct reports to VPs). At the same time, interviews are conducted with the CEO and the CEO's direct reports (senior executives).

The ERM team analyzes the information gathered in the surveys and interviews to prioritize the risks. The prioritized risks are typically presented using a heat map. For each of the organization's top risks (typically 8-10 risks), an owner is identified. The risk owners, also referred to as risk champions, are responsible for assigning a risk manager, approving mitigation (action) plans, resourcing the plan, and briefing the plan to the Board. The risk owners are assisted by risk managers who are responsible for the risk action plan. The ERM team works with the risk managers to understand survey findings and develop mitigation plans. The risk managers are responsible for managing the risk and tracking the progress of the mitigation plan. They own the risk and report progress of the mitigation plans to the ERM team on a quarterly basis. The ERM team summarizes the risks, the risk mitigation plan and the progress in implementing the plans on a dashboard that is reported to executive leadership and the Board.

During the third quarter, the ERM team updates the earlier identified risks by conducting a second round of interviews with the CEO and senior executives. They factor in risks that arise due to external factors such as regulatory risks, geo-political risks, economic risks, technological risks, etc. Any significant changes are incorporated into the heat map and used to refine the risk mitigation plans.

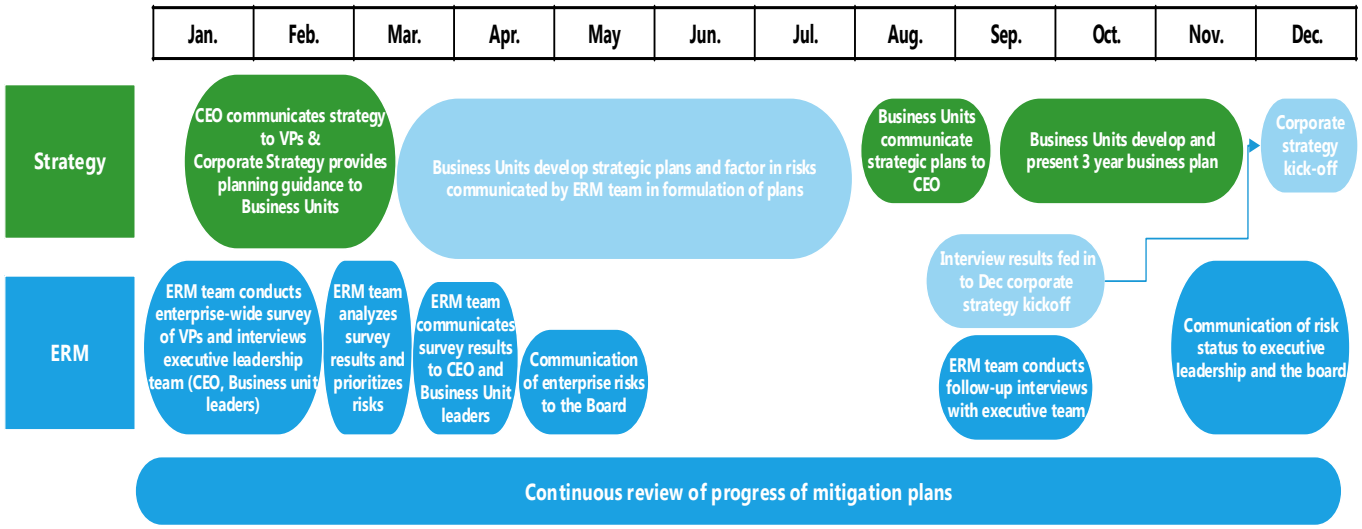
The company has several business units and the ERM team shares business unit specific risks (heat maps) with the executive leadership team of each business unit during the March timeframe. During the second quarter, the business units consider these risks, determine the risks critical to their respective business unit and communicate their action/ mitigation plans back to the executive team during the July time frame as part of their strategic plan.

Strategic Planning Process

Mitchell Industries has an annual strategic planning cycle. The process starts in December and is both a top-down and bottom-up approach. The CEO owns the overall strategy. That strategy is primarily developed by the Corporate Strategy office, working in conjunction with business unit strategists. Once the overall strategy is developed, the plan is communicated by the CEO to the VPs at the annual Senior Leadership Meeting in the January/February timeframe and to the Board in February.

The business units develop their respective strategies in light of their portfolio of products and within the framework of the corporate strategy and guidance provided by the Corporate Strategy office. This process begins in February and culminates in July with the Strategic Planning Conference where the business unit leaders present their strategy for the upcoming year to the CEO. Each business unit is also responsible for annually developing a three-year business plan that reflects the implementation of the strategy. This plan is updated concurrently with the strategy and is finalized in November.

Mitchell Industries ERM & Strategy Implementation Timeline

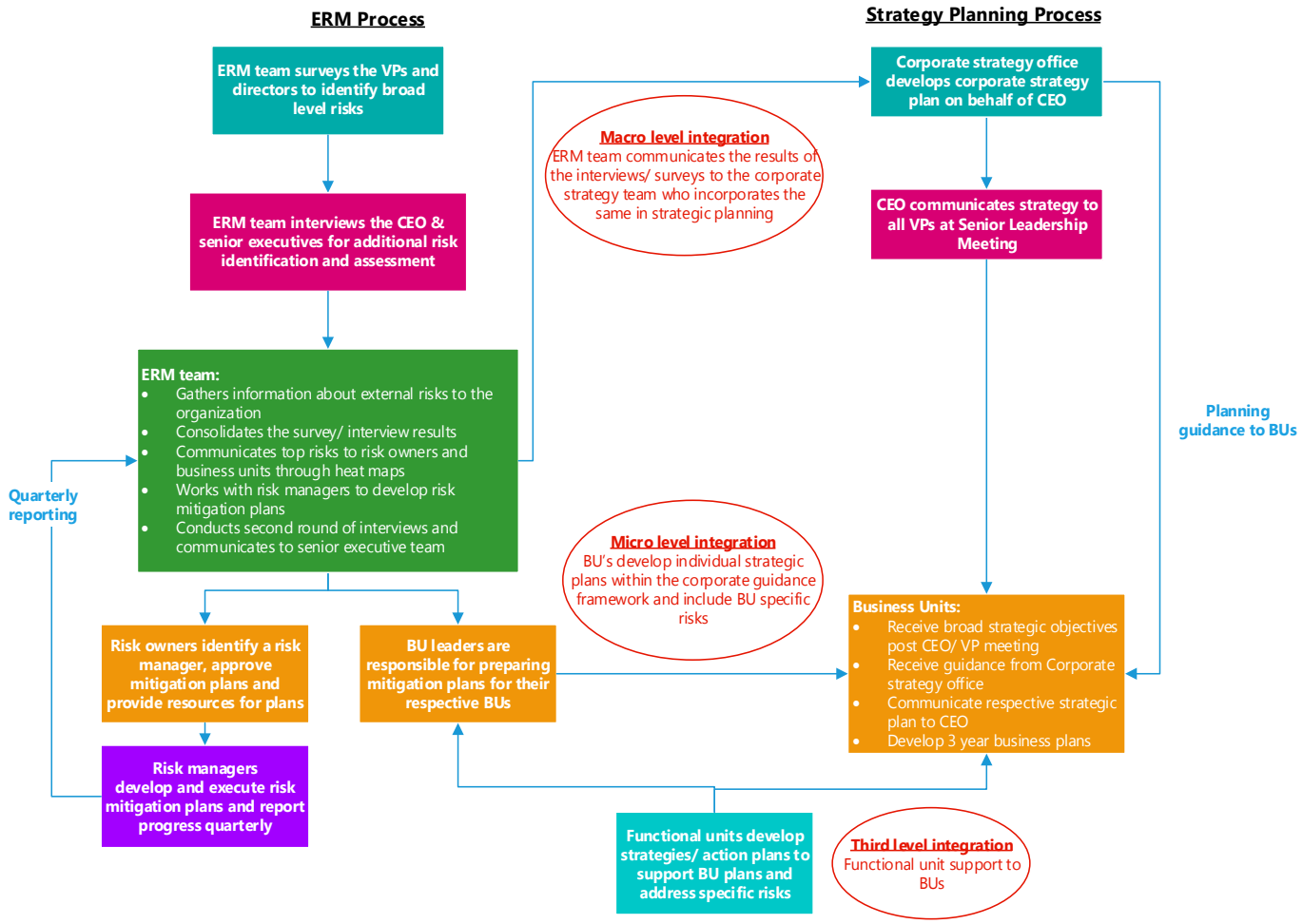


Integrating the Two Processes

The strategic planning process and ERM process are initiated in two different organizations and start at slightly different times. Strategic planning starts with the CEO and strategy leads. ERM starts with surveying the VPs and their direct reports. The two processes operate in parallel, with both following an annual cycle and combined top-down / bottoms-up approach. There are several points where information is shared between the two. This is how the company integrates the two processes to ensure ERM and strategy are in sync and have an enterprise wide impact. The following are the specific points of integration:

- **Macro Level** – The first point of integration is the third quarter risk update. This updated information, which includes external risk developments that may impact the organization, is communicated to the corporate strategy team who then factors the information into the corporate-level strategy.
- **Micro Level** – The second stage of integration is at the business unit level. Each business unit receives the broad strategic objectives post the CEO and VPs meeting (January/ February time frame). The business units also receive specific information about their top risks from the ERM team (March time frame). The business units factor this information into the formulation of their strategic plans.
- **Third Level** – The final stage of integration occurs when Functions develop strategies/ action plans to support Business Unit plans and address specific risks.

Mitchell Industries ERM & Strategy Integration



Issues in Integration

The initial integration of the two processes was not simple and smooth. The company encountered some challenges, but ultimately was able to adapt the process. The key issues faced by the company and the steps that were taken to remedy those issues are as follows:

- **Non-value Add Perception**

  The strategy and business unit leaders believed they had a complete understanding of the internal and external environment. Therefore, they did not see the value offered by the ERM team and the need for a separate risk identification and assessment process.

  To deal with this, the ERM team worked to eliminate duplication and redundancy and show the business unit leaders the value added by taking a comprehensive, enterprise wide approach to risk. For example, the ERM team accumulated risk information from across the enterprise and provided executive leaders with an enterprise view of risks that they otherwise

would not get. In addition, they provided business unit leaders with an opportunity to shape the process for gathering risk information so that the process would be more meaningful for the business units. Over time, this helped the strategic and business unit leaders be more accepting of the ERM process and team.

- **Leadership Change**
  Another challenge faced by the organization was the frequent turnover in the top corporate strategist position. This led to frequent adjustments in the planning process for the organization. For example, at one time, there was heavy reliance on external sources for risk information, however, with a change in personnel, the strategic planning function began relying more on the internal ERM team for risk information. With that shift, the ERM team was able to be more involved in the strategic planning process.

> ***"Communication and education of all individuals involved in the integration process is key to success."***

Through these changes, the ERM team recognized the need to educate and advocate the value the ERM process can bring. They now provide a basic introduction and overview of ERM to new leaders. The education process is not always formal; ERM professionals also look for opportunities to network within the organization to make more people aware of the work the ERM team performs and the resources they have to offer.

Future Steps

Like the ERM process overall, the integration of ERM and strategy is an ongoing effort which continues to make incremental improvements each year. The company believes the integration is working well especially since the current leadership is open to further opportunities to fine tune the integration between the two.

Even with the advances the company has made in their ERM process, the company feels that parts of the organization are still operating in silos and that improvements could be made in the linkage of risk mitigation processes across organizational boundaries. The company does not have a system to align strategic initiatives and risks at the business unit level with initiatives and risks at the corporate level. This could potentially result in disconnects between the two. The company is now piloting a new software tool that has the potential to link corporate level and business unit level strategies and risks.

Another area of improvement recognized by the company is the resource allocation process as it relates to risk mitigation. While risks are being considered in the strategic planning process, the need for resources to mitigate high priority risks is not being considered alongside the resources needed to implement strategic initiatives in each function area. Each functional team has their initiatives that support the corporate strategy, but those initiatives are not explicitly linked to the potential risks of achieving the corporate strategy. The ERM team is working with strategy and functional teams to create better alignment of objectives, strategies and risks.

The company has crossed the initial hurdle of identifying and spreading awareness about the need for and benefits of integrating ERM and strategy. In other words, they have successfully answered the question "why is integration necessary". However, they are now in the stage of answering the question "how to effectively implement the integration" and "how to overcome the challenges of integration". Successfully dealing with these questions will enable Mitchell Industries to move onto the advanced stage of integration where corporate level and business unit level strategies and risks are developed and managed in an integrated, enterprise-wide process.

Critical Elements of Integration at Mitchell Industries

- Top leadership support in accepting and promoting the importance of ERM
- Formal tool for linking corporate level risks and strategies with business unit level
- Continuous monitoring and tracking of implementation plans
- Accountability for smooth operations
- Appropriate resource allocation to risks

Case Study: Eli Lilly

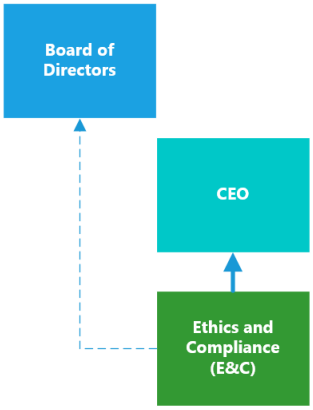
Background of the Organization

Headquartered in Indianapolis Indiana, Eli Lilly and Company focuses on the research, development, manufacturing, sale and distribution of human pharmaceutical and animal health products. The company sells products in approximately 120 countries worldwide. Eli Lilly has a market capitalization of approximately $90 billion, revenue in 2014 of $20 billion, and approximately 41,300 employees worldwide.

Overview of ERM

While the company's ERM program began formally in 2005, the integration of ERM with the company's strategic planning process started in 2007. In order to promote the importance of a strong connection and assess ways to improve the link between ERM and the company's strategic planning process, the Sr. Director of ERM initiated a series of sessions amongst leaders from the Corporate Strategy, Ethics and Compliance (E&C), and Legal functions. It was especially important that key strategic risks be included in the ERM process, and that leaders within Eli Lilly's strategic functions be able to provide input on what risks were ultimately elevated to an enterprise level.

Eli Lilly and Company uses a highly structured approach to implement its ERM process and accomplish integration of ERM and strategy. The board-level components consist of the Audit Committee and the Public Policy and Compliance Committee (PPCC), which provide oversight and accountability at the board level.



The company chose to align ERM with its E&C function to benefit from two key attributes: risk identification and independence. The E&C function at Eli Lilly conducts risk identification and mitigation as part of its daily operations; keeping ERM aligned with Compliance would provide for greater efficiency. The Ethics and Compliance department reports to the CEO with a dotted line of reporting to the board, so aligning ERM with the E&C function allowed ERM to maintain this essential, independent line of reporting as well.

The next element is the Compliance and Enterprise Risk Management Committee (CERMC), which consists of senior management, including the Presidents of each of the company's business units and functions (e.g. LRL, Manufacturing, Quality and Global Services, etc.), the President of Lilly's largest affiliate, the Chief Medical Officer, the Chief Information Officer, and the General Auditor.

Another critical component is the ERM Core Team, which consists of a group of six selected members representing various areas of the business, including two executives in charge of strategy (including the leader of Corporate Strategy), the board secretary, who is an attorney in

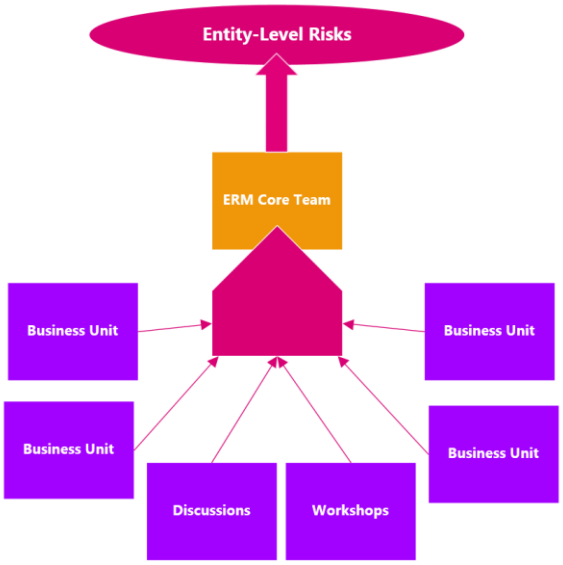
the Lilly Law Division, a CERMC member (Chief Ethics and Compliance Officer), and the two individuals in charge of the company's ERM process.

Eli Lilly ERM Structure

Having a group such as the ERM Core Team provides several benefits. A multi-disciplinary team provides an enterprise-wide perspective on both risk identification as well as prioritization. Including strategic personnel provides a uniquely strategic point of view, and including a board level perspective can keep the ERM team informed of board-level priorities or concerns and more closely link ERM risks to the company's current and future strategic initiatives. The mix of personnel on the Core Team allows the group to evaluate operational risks through a long-term strategic lens to identify entity-level risks and opportunities.

Each January and February, the ERM Core Team conducts workshops involving 40-50 leaders across the company's geographic regions and business units. The Core Team then uses the information gathered from the workshops as well as its own internal discussions to put together a report on entity level risks that is reviewed by the CERMC. The Core Team is able to pull

together themes that cross business unit/functional area boundaries and use their respective points of view to prioritize these themes into entity level risks based on a strategic, enterprise-wide perspective. In this way, the ERM Core Team serves as a critical transition point from the "silo" perspective of the individual business units to the more enterprise-wide view of executive management and the board.



For example, after completing its annual ERM workshop process and reviewing the results, if the ERM Core Team discovered that several different business units have identified a similar risk, the ERM Core Team could upgrade the risk from a business unit risk to an entity level risk in the report to the CERMC. Upon review by the CERMC, additional resources could be assigned, including the creation of a task force/team to look specifically at the enterprise level risk and craft a mitigation plan to be implemented on a company-wide basis. This is just one example of how Eli Lilly's process is designed to take what appears to be a business unit risk and escalate it to an enterprise level to be dealt with and mitigated before it negatively affects the company.

Directly supporting the ERM Core Team are the ERM Liaisons, which typically have operational responsibilities at the business unit or functional level. The ERM Core Team works closely with the ERM Liaisons to identify risk owners within each business unit or functional area, and the ERM Liaisons in turn work with the identified risk owners to craft a mitigation plan for the risks they have been assigned. This ensures that those most directly responsible for managing and mitigating the identified risks maintain ownership of the risks.

In addition to the assignment of risk ownership, oversight and monitoring is conducted throughout the process to ensure that the mitigation plans are put into action. Based on whether a risk has been assigned a high (red), medium (yellow), or low (green) risk designation on the company's ERM heat map, oversight is assigned to the CERMC, ERM Core Team, or Business Unit Liaisons respectively (see Appendix A3 and A4). For example, review and oversight by the CERMC involves a risk owner providing an update to the members. The ERM Core Team meets with ERM Liaisons to review documents that support execution of the various mitigation steps, and Business Unit Liaisons conduct their own review of the documentation supporting execution of the various mitigation steps.

Integration of ERM with Strategy

One of the first obstacles to integration faced by Eli Lilly was getting those involved in the process to avoid mentally separating ERM risks from other strategic processes. From the

"It was critically important to link ERM with the well-understood and appreciated strategic planning process."

company's point of view, integration should begin at the individual employee level, and this required helping employees understand that ERM should not be separated from their other work.

One method the company used to overcome this obstacle was to ensure the timing of the company's ERM process coincided with the strategic planning process during the company's regular business cycle. When the strategic planning process begins in January and February, business areas are responsible for establishing their portion of the strategic plan. Information from this business unit level process is used as an input for annual ERM workshops, which encourages employees to think about ERM at the same time they are already engaged in the strategic planning process. This helps embed the ERM process at the strategic planning level and increases the likelihood that strategic objectives directly inform the risk identification process. Since the strategic planning process also involves scenario analysis activities, the company is able to identify potential opportunities for competitive advantage arising from successfully mitigated risks.

One of the keys to ensuring that personnel perceive ERM as more than just "another corporate exercise" has been to focus on building relationships and educating employees on how the ERM process has value for the company. This education has occurred by conducting CERMC and board meetings as well as sessions with ERM Liaisons. Since the strategic planning process is well-understood, and its importance widely accepted, linking ERM to the strategic planning process from a corporate perspective helped forge the correct mindset.

"The ownership and accountability has to sit with those who manage the risks on a daily basis, and that happens at the business unit level."

The other key to integrating the process with strategy at the employee level has been to create "local" ownership of the process at the business unit level. This was accomplished by establishing that the business leaders would ultimately be responsible for the identified risks and their subsequent management and mitigation. Additionally, making it clear that the board of directors was keenly interested in knowing what the risks were and how they were being managed created a powerful incentive that represented the "tone at the top" and encouraged business unit leaders to make the process work.

After the CERMC conducts its review of the ERM Core Team's report on entity-level risks, they also review business unit strategic plans, which provides another level of strategy and ERM

integration. The CERMC is able to view the strategic plans through the lens of the recently reviewed enterprise-wide risks distilled from the work of the ERM Core Team and ERM workshops. Having this dual outlook helps identify overlooked areas or risks that may have been included in the risk portfolio but not addressed in the strategic plan.

The last component of the integration cycle happens at the end of the business plan process, after the final funding decisions have been made as part of the company's budgeting process. The ERM Core Team and the CERMC meet again to discuss whether any funding changes resulting from the budgeting process have affected the previously identified risks, and whether any changes need to be reflected in the company's risk profile. The ERM Core Team reviews and provides input regarding the risks included in the company's 10-K, which provides a final critical communication link between risk, strategy, and the company's stakeholders. This provides a good summation point for the ERM process, and ensures one final point of review that includes both ERM and strategic perspectives.

Future Steps

The integration of ERM and strategy is an ongoing process that Eli Lilly seeks to improve each year. The company has identified three broad areas where it intends to further improve integration between ERM and the company's strategic process. The first area of focus includes improving its identification of opportunities and not just the threats represented by risks identified in the ERM process. Further integration of ERM and strategy will allow risks to begin to inform new strategic directions and initiatives that add value to the company. The company plans to implement this change by specifically discussing possible opportunities during the risk identification workshop process each year. The discussion will seek to identify risks that, if mitigated properly, may lead to a competitive advantage in the industry or marketplace. Any opportunities identified will then be passed along to those in charge of business planning.

Critical Elements of Integration at Eli Lilly

- Ensuring employee understanding of the value of ERM
- Aligning the timing of the strategic planning and ERM processes
- Creating "local" ownership of risk mitigation plans
- Maintaining an interdisciplinary team (ERM Core Team) to transition risks from a business unit level to an entity level
- Engaging in multiple points of assessment and review

The second area of focus is to more systematically consider key risk indicators, or what the company calls "signposts". Identifying "signposts" can enable the company to activate or revise a mitigation plan in time to effectively address emerging risks. While there are business units that are doing this currently, the goal is to ensure consistent enterprise-wide adoption in a more formal and documented manner.

The last area of focus will be to more clearly identify risk interconnectedness. Viewing all risks as being potentially linked in some way will improve both the identification of how one risk can amplify others, as well as improve management of risks across affected business units. This will

allow the company to be more efficient in managing risk, as well as assist in the identification of new opportunities for improvement.

The company recognizes that integration is an ongoing process. Each of the critical elements of integration have grown over time, and are the result of consistent leadership and support from the top levels of the organization as well as a positive company culture surrounding risk management and its integration with strategy.

Case Study: Daisy Company

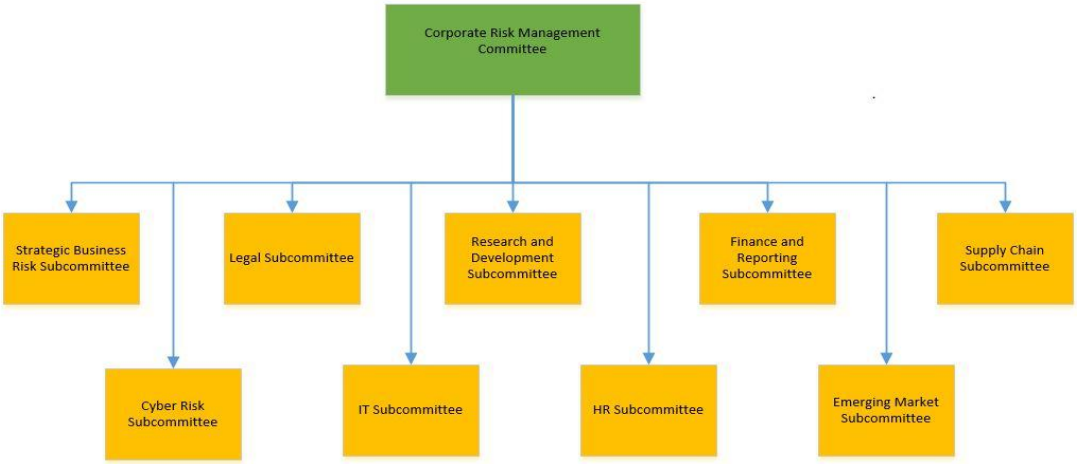
Background of the Organization

Daisy Company is a leading national specialty manufacturer of high-quality personal care products. The company's products are sold in more than 95 countries and territories around the world. The company's net sales for fiscal year 2015 was $12.4 billion and net income was $1.3 billion.

Overview of ERM

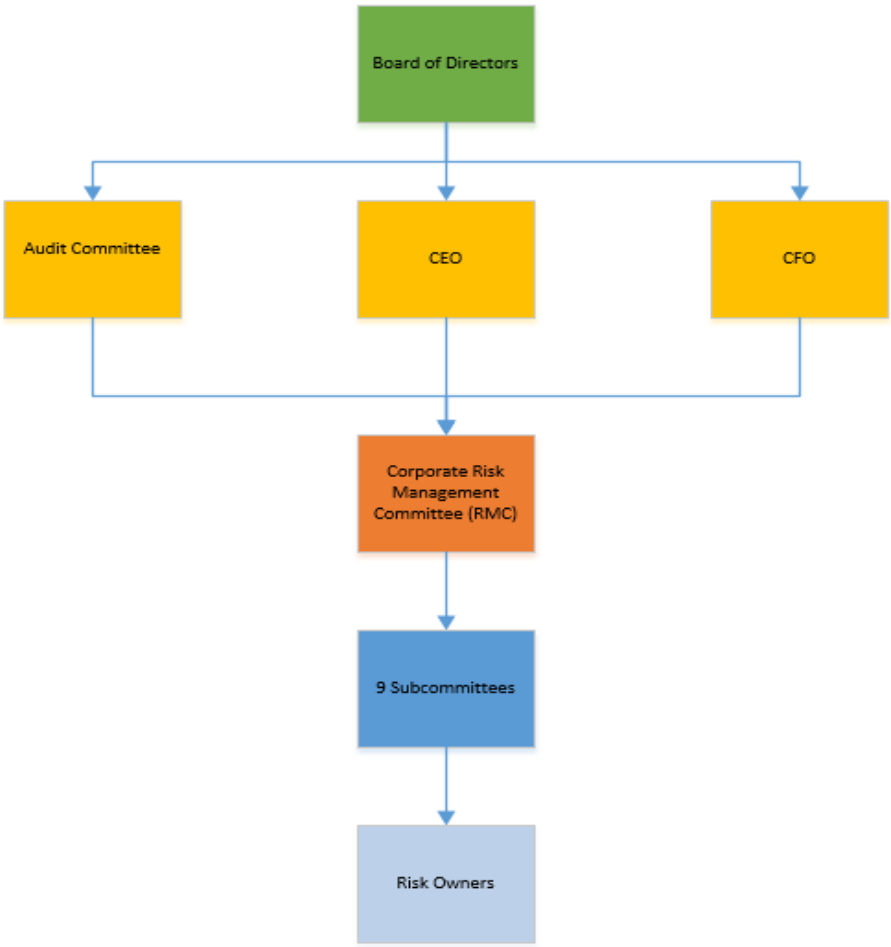
ERM is a process by which the company identifies critical risks affecting its ability to successfully attain its goals and strategy. The company has adapted its ERM process over the years by adopting a subcommittee ERM approach that deals with major risk areas such as strategy, technology, human resources, and emerging markets.

Daisy Company Corporate Risk Management Committee



The company has a corporate-level Risk Management Committee (RMC) which meets four times a year and is made up of ten members from the senior level of the corporation. The committee includes Presidents of Brands, Head of HR, the CFO, the Treasurer, and the Head of Operations. Below the RMC, there are nine other subcommittees: Strategic Business Risk, Legal, Research and Development, Finance and Reporting, Supply Chain, Cyber Risks, IT, HR, and Emerging Markets. Each of these subcommittees has approximately 8-12 members at VP or above level. Each subcommittee is made up of multi-disciplinary members to identify the risks to the company as a whole. Towards the end of the year, the CRO will present the top risks identified and escalating risks to the CFO, CEO, Chairman, the Audit Committee and the Board once a year.

Daisy Company ERM Structure



The risk identification process begins with a questionnaire that goes to all subcommittee members as well as risk owners and senior management. The questionnaire, which is part of the company's integration of ERM and strategy, includes the following questions:

- What are the risks that would affect the strategy?
- What are the operational risks?
- What risks are escalating that will require priority focus in the current year, and
- What risks are emerging risks that could have significant impacts in the future?

The questionnaire includes a catalogue of existing risks for reference, and then the risks are updated based upon the results of the questionnaire. A risk template is used to record the identified risks with a description, the risk owner, and a scenario analysis that shows how the risk affects the company. The template also includes 1-3 risk drivers. The inherent risk is then rated by the risk owner and RMC based on 3 criteria: probability, impact, and velocity. Then the risk score is derived from these criteria. As part of the mitigation strategy, a risk owner is assigned responsibility for developing a mitigation plan. There are also risk mitigation tasks which are high-level tasks done to implement the strategy for mitigating the risk. In the subcommittee, each

task is rated to come to a composite score for the strategy and later, each owner of the committee is responsible for having the template filled out. (See Appendix A5).

After completing the template, the risk owners and the committees then rate the risk on a residual basis using the same 3 criteria (impact, probability, and velocity) to see how the mitigation strategy has affected the level of risk. In addition, there is also a mitigation effort score using a 1-5 scale (deficient, weak, basic, acceptable, and comprehensive) to rate the mitigation actions. The risk owner is then given the chance to provide an explanation for the risk rating score. In order to know whether the plan has been implemented in the future or whether the mitigation plan has worked, the risk owner re-rates the risk after mitigation has been implemented using the same 3 criteria (impact, probability, and velocity). From the risks and the ratings provided by the risk owners, escalating risks are determined and reported to senior management [See Appendix A6]. For example, cyber risk is a high impact and high likelihood risk, and if it is graphed on the heat map, it would be upper right. However, the heat map does not give people a chance to communicate and talk about what they have done to mitigate the risk. Therefore, the residual rating gives people the chance to show that they are doing all they can, and despite their efforts, the risk is still remaining high, even with a mitigation plan in place.

Integration of ERM with Strategy

Tone at the top plays an important role in the success of the company's integration process of ERM with strategy.

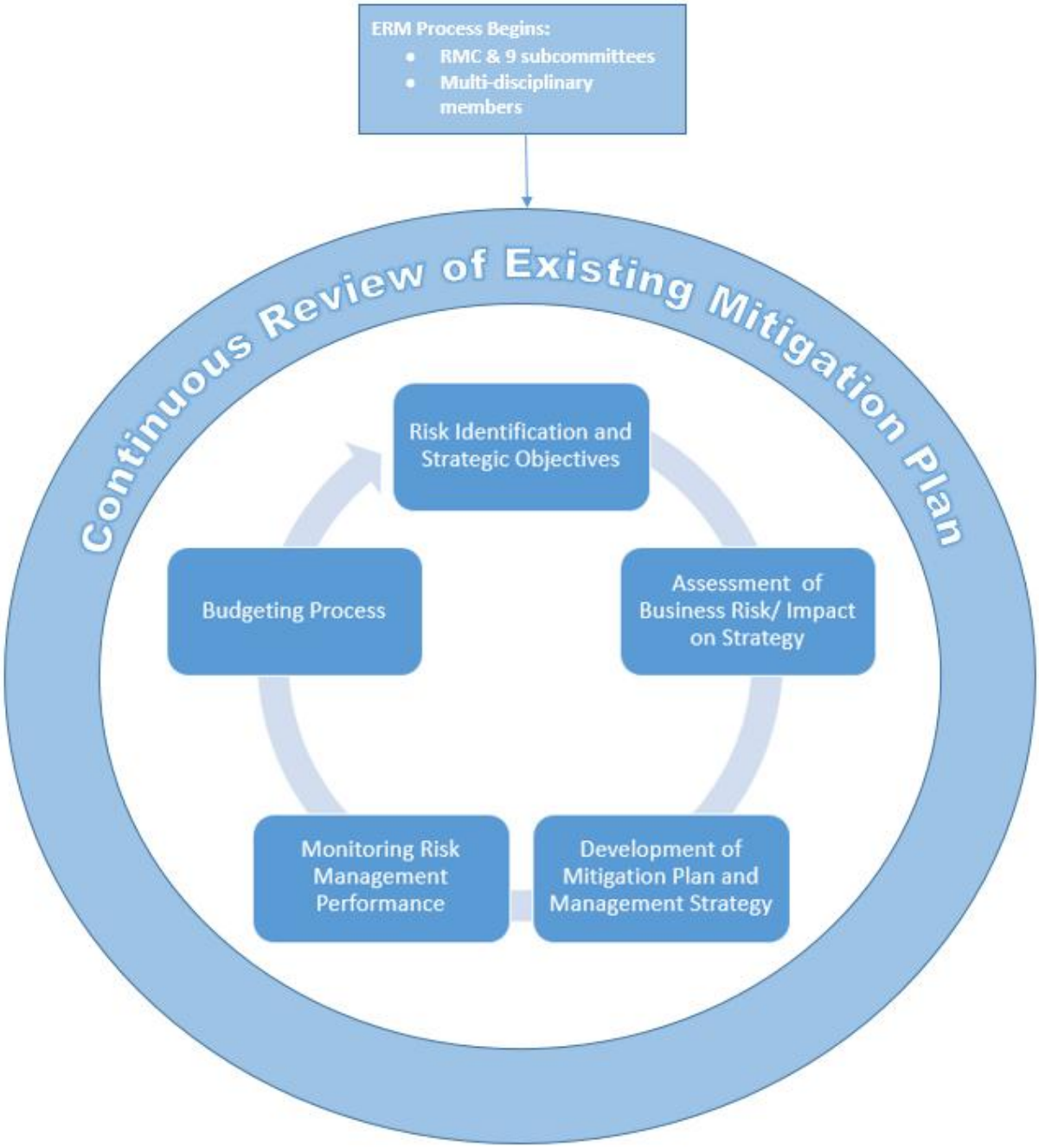
The CEO has driven the integration of ERM with strategy, therefore, changes and improvements each year have been in the direction towards integrating ERM with strategy. The support and strong tone at the top play an important role in the success of the integration process of ERM with strategy. The risk committees are made up of 8 operational subcommittees and one strategic risk subcommittee with risk owners who are typically members of the operational subcommittees. The strategic risk subcommittee is chaired by the head of strategy and made up of senior management members. Each subcommittee, except for the risk subcommittee, has its own risk owner, and risk owners are interviewed individually by the CRO of the risk subcommittee.

The other key area of integration is the development of lagging KRIs for risk and mitigation purposes. As a business, from the strategic plan, the company develops lagging KRIs to track the various mitigation tasks. The risk indicators help the company to enact the mitigation plan in time to effectively address emerging risks. For example, a lagging KRI might track sales in a particular place and use the existing KRI to address any changes in risk and mitigation tasks when the company plans to earn revenue in a particular location.

Finally, the company includes the risk templates in the normal strategy process and includes a process for identifying the main risks to the strategy and the plan for managing those risks. After the mitigation plan has been implemented, the RMC will re-assess to see whether additional actions would be needed and send the summary to the finance department to make sure funds are available.

The corporate risk management committee and the risk subcommittees meet quarterly. The subcommittees usually meet early in the third quarter. The strategic planning process typically starts near the end of the year, while the budgeting process takes place in the later part of the third quarter. The strategy process and the risk management process are ongoing, simultaneous processes. The company sees risk management and strategic planning as a continuous, ongoing cycle, so they do not try to fit things into a prescribed time, but rather maintain flexibility to respond to changing conditions.

Daisy Company ERM Timeline



Future Steps

The ERM process has been improving each year, involving more personnel throughout the organization. Since its inception 15 years ago, it has matured in tandem with the strategic planning process. The company has a very strong tone at the top which has supported the continuous improvement of these processes. One of the most significant improvements in the process came about during the aftermath of the financial crisis, when the company put more structure around risk mitigation plans and mitigation efforts.

Critical Elements of Integration at Daisy Company

- Strong tone at the top and company culture
- Risk and strategy have always been linked
- Multi-disciplinary members in each sub-committee
- Continuous and ongoing assessment and review

The company is now in the process of introducing a new set of reporting procedures which will take more of a dashboard approach, in an effort to better communicate risk information. However, the company still believes that informal communications between the key players dealing with risks and strategy are critical, and those discussions need to continue.

At the business level, at first, personnel may have felt that considering risks represented additional work, and did not really see the immediate benefit. However, the RMC has been trying to be a facilitator to keep the load on others as light as possible, so the workload effect was not so dramatic. For example, the strategic business risk subcommittee used to request that the other risk committees complete the risk templates. Now, the strategic business risk committee gathers the information themselves, completes the templates, and sends it to the other risk committees for review. Now that the benefits of the ERM process are widely recognized, and the process has become institutionalized, changes in personnel have not had a disruptive effect. New personnel quickly adapt to the process as a result of the strong culture of the company.

The company realized the importance of integration of ERM and strategy early from the beginning of the ERM process, and considers integration to be an ongoing process. The ERM process as well as the integration with strategy have grown over time as a result of consistent support from the top levels of management and the company's culture.

Conclusion

- There is no best "home" for ERM within a company's operations; rather, ERM should be well-positioned to have proper reporting channels and have an effective vantage point of the company's operations to avoid potential "blind spots." This can vary depending on the nature of the company's operations, its culture, and organizational structure.

- It is essential to remember how important the tone and expectation coming from top leadership is in creating and maintaining a successful ERM process, especially one that is functionally integrated with strategic planning.

- Take time to build relationships through educating key business process leaders about the benefits of the company's ERM process. Business leaders will more fully engage in the process when they see inherent value in the process.

- No matter where a company is in its ERM process, communication and education of those involved is critical to keeping ERM relevant, accepted, and supported.

- Assign risk ownership and mitigation at the business unit level. Making business unit and functional area level personnel responsible for owning risks and crafting mitigation plans makes strategy and risk management coexist in the same space. This provides the "front-line" integration of risk and strategy, since the individuals responsible for carrying out strategic objectives are also involved in risk ownership and mitigation.

Appendix

A1: Mitchell Industries: Risk Assessment Template

RISK IDENTIFICATION		RISK 1	RISK 2	RISK 3
Enter the Risk Category You Selected				
Identify any Key Risk Elements Missing from the List on the Previous Page				
RISK ASSESSMENT				
Likelihood What is the possibility of this risk occurring?	1 - Remote (<10%) 2 - Unlikely (25%) 3 - Possible (50%) 4 - Probable (75%) 5 - Almost Certain (> 90%)			
Impact: What is the impact of this risk on business objectives?	1 - Insignificant 2 - Minor 3 - Moderate 4 - Major 5 - Catastrophic			
Effect: Describe the business objectives which could be affected by this risk.				
Mitigation: What is your confidence in our strategies, to an acceptable level?	1 - Extremely Confident 2 - Very Confident 3 - Confident 4 - Slightly Confident 5 - Not Confident 6 - Don't Know			
Action: What actions would you recommend to address this risk?				

A2: Mitchell Industries: Template Assessing Risk in Relation to Strategy

RISK IDENTIFICATION		RISK 1	RISK 2	RISK 3
Enter the Risk Category You Selected				
Identify any Key Risk Elements Missing from the List on the Previous Page				
RISK ASSESSMENT				
Likelihood What is the possibility of this risk occurring?	1 - Remote (<10%) 2 - Unlikely (25%) 3 - Possible (50%) 4 - Probable (75%) 5 - Almost Certain (> 90%)			
Impact: What is the impact of this risk on business objectives?	1 - Insignificant 2 - Minor 3 - Moderate 4 - Major 5 - Catastrophic			
Effect: Describe the business objectives which could be affected by this risk.				
Mitigation: What is your confidence in our strategies, to an acceptable level?	1 - Extremely Confident 2 - Very Confident 3 - Confident 4 - Slightly Confident 5 - Not Confident 6 - Don't Know			
Action: What actions would you recommend to address this risk?				

A3: Eli Lilly: Risk Assessment Template

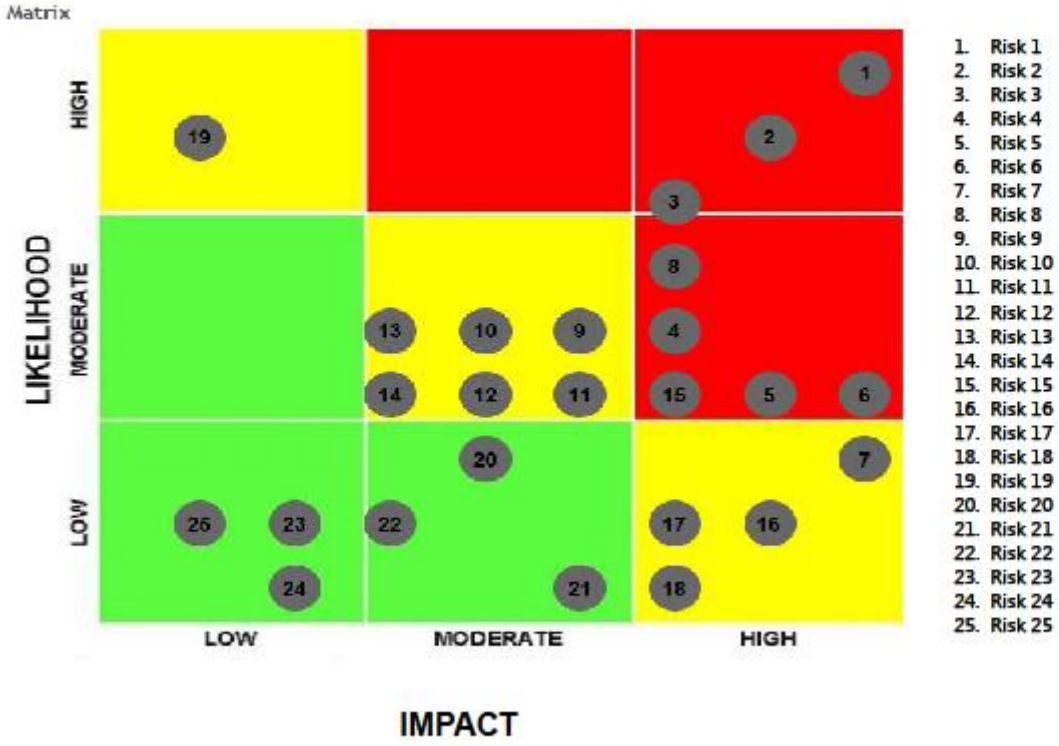
Likelihood

7-9	High	>50% likely to occur; event has occurred in the last 24 months, or likely to happen in the time period associated with the company's strategic plans
4-6	Medium	10-50% likely to occur; has occurred in the distant past, or is moderately likely to occur in the time period associated with the company's strategic plans
1-3	Low	<10% likely to occur; not likely to occur in the time period associated with the company's strategic plan

Impact

		Impacts Business Objectives	OR Financial	OR Operations / Resiliency
7-9	High	Significantly impacts our ability to achieve Lilly's bus objectives / pipeline	Results in a single year financial impact >$X, with ongoing impact	Significantly disrupts enterprise-wide customer service or operations reliability; or impacts brand long term
4-6	Medium	Moderately impacts our ability to achieve Lilly's bus objectives / pipeline	Results in a single year financial impact greater than $X and less than $X, with some ongoing impact	Moderate impact on enterprise-wide customer service or operations reliability; or impacts the brand for a limited period of time
1-3	Low	Limited impact on our ability to achieve Lilly's bus objectives / pipeline	Results in a single year financial impact <$X, and little ongoing impact	Limited disruption of customer service or operations reliability, no impact on brand

A4: Eli Lilly: Risk Ranking Matrix



A5: Daisy Company: Risk Template

Risk Number: | **Date Completed/Updated:**

1. Risk Information

Risk Name:	
Summary Risk Category:	
Risk Short Description:	
Risk Committee:	
Risk Owner:	

Inherent Risk Element Ratings: **Velocity** **Impact** **Probability** **Risk Score**

(Based on 5 point scale: VL-Very Low, L-Low, M-Medium, H-High, VH-Very High)

2. Risk Scenario

Key Risk Drivers:

- **X**
- **X**
- **X**

3. Current Risk Mitigation Strategies and Tasks

(Effectiveness Ratings are based upon a 1 to 5 scale, with 5 being "Highly Effective", the Overall Effectiveness Rating represents an assessment of the overall Mitigation Strategy based upon the Risk Mitigation Tasks that are in place and the assessment of their effectiveness.)

Strategy No.	Mitigation Strategy Name	Mitigation Owner	Description	Mitigation Effect	Overall Effectiveness Rating
M001					

Task No.	Mitigation Task Name	Mitigation Task Owner	Description	Task Mitigation Effect	Risk Element Rating Affected	Metrics & Monitoring	Effectiveness Rating
T001							
T002							
T003							

4. Current Residual Risk Ratings

Risk Element Ratings: **Velocity** ☐ **Impact** ☐ **Probability** ☐ **VIP Risk Score** ☐

(Based on 5 point scale: VL-Very Low, L-Low, M-Medium, H-High, VH-Very High)

5. Current Mitigation Effort (to be completed by Risk Owner)

Mitigation Effort Rating: **Comprehensive** ☐ **Acceptable** ☐ **Basic** ☐ **Weak** ☐ **Deficient** ☐

Current Mitigation Effort rating is Basic or below, risk requires Future Risk Mitigation Strategies

Mitigation Effort Justification:

6. Current Mitigation In Action Example

7. **Future Risk Mitigation Strategies** (If Current Mitigation Effort rating is Basic or below, risk requires Future Risk Mitigation Strategies)

Mitigation Strategy Name	Mitigation Owner	Description	Action Plan	Implementation Date	Required Resources	Incremental Cost

8. **Future Residual Risk Ratings**

Risk Element Ratings: **Velocity** ☐ **Impact** ☐ **Probability** ☐ **VIP Risk Score** ☐

(Based on 5 point scale: VL-Very Low, L-Low, M-Medium, H-High, VH-Very High)

9. **Future Mitigation Effort (to be completed by Risk Owner)**

Mitigation Effort Rating: **Comprehensive** ☐ **Acceptable** ☐ **Basic** ☐ **Weak** ☐ **Deficient** ☐

Mitigation Effort Justification:

10. **Risk Outlook (to be completed by Risk Owner):** Qualitative rating based on micro and macro factors, not directly connected to risk mitigation

Risk Outlook: **Increasing** ☐ **Decreasing** ☐ **Stable** ☐

Risk Outlook Justification:

11. **Opportunities:** Opportunities are favorable or advantageous circumstances arising from the identification and/or mitigation of the risk that can promote the achievement of our strategic goals and objectives.

Opportunities Description:

A6: Daisy Company: Rating Scale

	Impact				
Rating	**Financial Loss ($)**	**Strategic Impact**	**Sales**	**Reputation**	**Regulatory / Compliance**
Very High 5	>$100M NOP	Major impact on the company's ability to achieve strategic goals or execute priority initiatives	Major impact on sales growth	Major impact on corporate or brand reputation	Major regulatory / compliance failure
High 4	$60M-$100M NOP	Significant impact on company's ability to achieve strategic goals or execute priority initiatives	Significant impact on sales growth	Significant impact on corporate or brand reputation	Significant regulatory / compliance failure
Medium 3	$30M-$60M NOP	Moderate impact on company's ability to achieve strategic goals or execute priority initiatives	Moderate impact on sales growth	Moderate impact on corporate or brand reputation	Moderate regulatory / compliance failure
Low 2	$10M-$30M NOP	Low impact on company's ability to achieve strategic goals or execute priority initiatives	Low impact on sales growth	Low impact on corporate or brand reputation	Low regulatory failure / compliance
Very Low 1	<$10M NOP	Minimal impact on company's ability to achieve strategic goals or execute priority initiatives	Minimal impact on sales growth	Minimal impact on corporate or brand reputation	Minimal regulatory / compliance failure

Effectiveness Rating	Effectiveness Definition	Management Activities	Documentation, Training and Monitoring
Highly Effective 5	**The Mitigation Task provides a high degree of assurance that the risk will be mitigated as expected.**	**Management activities are in place, properly designed and operating as intended.**	**All activities are properly documented, personnel are adequately trained and effectiveness is monitored.**
Effective 4	**The Mitigation Task provides a reasonable degree of assurance that the risk will be mitigated as expected.**	**Management activities are in place, properly designed with minor opportunities for improvement.**	**Most activities are properly documented, many personnel are adequately trained and some activities are monitored.**
Reasonably Effective 3	**The Mitigation Task provides a fairly reasonable degree of assurance that the risk will be mitigated as expected but has some room for improvement.**	**Management activities are in place and has opportunities for improvement.**	**Some activities are properly documented, some personnel are adequately trained and activities are loosely monitored.**
Somewhat Effective 2	**The Mitigation Task provides some assurance that the risk will be mitigated as expected, but requires substantial improvements.**	**Management activities are in place, not clearly defined with a high level of risk potential.**	**Few activities are documented, no personnel are properly trained and activities are not monitored**
Ineffective 1	**The Mitigation Task provides little or no assurance that this risk will be mitigated as expected and should be replaced.**	**Management activities are non-existent and have major deficiencies.**	**None of the activities are documented, no one is trained and none of the activities are monitored.**

Rating	Mitigation Sufficiency Definition
Comprehensive	**Efforts to manage risk exceed sufficient level and are fully optimized.**
Acceptable	**Efforts to manage risk are sufficient.**
Basic	**Efforts have been implemented to manage the risk. Some improvements and enhancements are required to reach a sufficient level.**
Weak	**Efforts to manage the risk are limited and/or in need of significant strengthening. Plans are in the early stages of development.**
Deficient	**The Mitigation Task provides little or no assurance that this risk will be mitigated as expected and should be replaced.**

Rating	Risk Outlook Definition
Increasing	**Potential threats in the internal / external environment are expected to increase.**
Decreasing	**Potential threats in the internal / external environment are expected to decrease.**
Stable	**Potential threats in the internal / external environment are unchanged / stable.**

About the Authors

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