From Risk Anticipation to Risk Resilience

The Integration of ERM with Strategic Planning and Business Continuity

2012 IRMSA Conference – The Ripple Effect

Ghislain Giroux Dufort - 2012.11.20
Presentation Overview

- Risk & Uncertainty – Anticipation & Resilience
- Enterprise Risk Management
- Competitive Value-Chain Risk Dynamics Framework
- Risk Categories
- External, Internal and Boundary Risks
- Application to Reputation Risk
- Business Continuity Management
- Crisis Management
- Conclusion- From Anticipation to Resilience
Risk & Uncertainty

Perfect Information ↔ Risk – Uncertainty ↔ Total ignorance

Known-Unknowns

Expected

Unexpected

Limited

Unlimited

Unknown-Unknowns

Anything Goes
Anticipation

Resilience

Perfect Information ↔ Risk – Uncertainty ↔ Total ignorance

Known-Unknowns

Expected

Unexpected

Limited

Unlimited

Unknown-Unknowns

Anything Goes
Enterprise Risk Management

A holistic approach to risk management that ensures a company or organization takes the right type and amount of risks necessary to attain its objectives and fulfill its mission while preserving its value and reputation given its capacity, appetite and tolerance

- Potential deviation relative to plan or expectation
- Can be positive as well as negative
- Probability, potential impact, interdependency
- Anticipation + Resilience
- Top-down Versus Bottom-up approaches
ERM Foundations and Velocity-Based Cycle

Foundations
- Company’s vision, objectives, strategies and values
- Company’s risk capacity, appetite and tolerance
- ERM’s mission and objectives: (example: value-added, low cost)
- Organization: ceo, senior mgt, sponsors, champions, cro, risk committee
- Common language: ISO 31000 or other

Identification
Prioritization
Evaluation

Key information for decision-making

Continuous improvement
Lessons learned

Performance monitoring
Risk / Return
Velocity / Volatility / Correlation
Cost / Benefit

Implementation
Including performance measurement criteria

Risk Strategies
- Avoid / Transfer / Reduce / Finance
- Price / Accept / Increase
- Continuity & Crisis Management

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Risk Heat Maps: Beware Interdependency

Potential impact:

- Low R/O: Routine management
- Moderate R/O: Assign responsibility
- High R/O: Senior management needed
- Extreme R/O: Immediate action required

Probability:
- Rare
- Unlikely
- Possible
- Likely
- Almost certain

Risk Heat Maps:
- Negative Risks (R)
- Positive Risks / Opportunities (O)
Competitive Value-Chain Risk Dynamics

Negative Risks

Counterparties

New Entrants

Competition

Positive Risks

Partners

Clients | Consumers | People

External Risks
- Business Environment

Internal Risks
- Operational

Boundary Risks
- Management & Contracts
Value Adding Chain

Planet | Resources | Suppliers

| Clients | Consumers | People

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Competitive Environment

Planet | Resources | Suppliers

Competitors

Clients | Consumers | People

New Entrants

Competitors

New Entrants
Negative Risk Mitigation Strategies

Negative Risks:
- Counterparties
- Partners
- Competitors
- New Entrants

Positive Risks:
- Planet | Resources | Suppliers
- Clients | Consumers | People

Positive Risks:
- Counterparties
- Partners
- Competitors
- New Entrants
Risk Mitigation Financing Strategies

Negative Risks
- Counterparties
- New Entrants

Positive Risks
- Partners
- Competitors

Planet | Resources | Suppliers

Clients | Consumers | People
Risk Categories Revisited

Counterparties

New Entrants

Planet | Resources | Suppliers

Negative Risks

Partners

Competitors

Clients | Consumers | People

Positive Risks

External Risks
- Business Environment

Internal Risks
- Operational

Boundary Risks
- Management & Contracts

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Observations on Risk Categories

• Widely used, but wildly confusing
• Example:
  "Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputational risk."
• Categories lead to arguments and consume time
• They tend to perpetuate the silo approach
• Use them as a checklist
External, Internal & Boundary Risks

• **External risks**
  – You have no control or influence over the *probability* that the risk will materialize, unless willingly exposed
  – Examples: the economy, market movements, natural hazards, social trends, political risk, etc.

• **Internal risks**
  – You have significant control or influence over the *probability* that the risk will materialize
  – People, process, systems and infrastructure of the organization

• **Boundary risks**
  – Management action and contracts with counterparties
  – You have significant control or influence over the *probability* that the risk will materialize
  – You have significant control or influence over the *impact* that the risk will have if it materializes
  – Origin of risk *probability, impact* and *interdependency* strategies
Applying the Framework: Reputation Risk

• Not a pure risk - A consequence of inadequate risk management

• External risks
  – Lowest source of reputation risk
  – Reputation impacted if management willingly exposed the organization to external risks without explaining the reasons properly, or failed to mitigate the potential impact

• Internal risks
  – Higher source of reputation risk
  – Not easy to explain why management could not prevent impacts resulting from its own people, processes, systems or internal infrastructure

• Boundary risks
  – Highest source of reputation risk
  – Management has significant or definite control or influence over the probability that the source of these risks will materialize: they are the risks arising out of management actions and contracts with counterparties, including risk-management contracts

• This framework helps to focus risk management on the most important reputation-risk source areas and adequate mitigation actions
Risk Anticipation and Response

“We can’t control when or where a terrible storm may strike. But we can control how we respond to it.”
External | Internal | Boundary Risks

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<tr>
<th>Probability</th>
<th>Negative Risks (R)</th>
<th>Positive Risks / Opportunities (O)</th>
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Potential impact:

- Low R / O: Routine management
- Moderate R / O: Assign responsibility
- High R / O: Senior management needed
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Continuity & Crisis Management Areas

Negative Risks (R) | Positive Risks / Opportunities (O)

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Potential impact

- Low R / O: Routine management
- Moderate R / O: Assign responsibility
- High R / O: Senior management needed
- Extreme R / O: Immediate action required

Almost certain | Likely | Possible | Unlikely | Rare
Black Swan Areas

Probability

Negative Risks (R) | Positive Risks / Opportunities (O)

1 | 2 | 3 | 4 | 5

Extraordinary | Major | Moderate | Minor | Insignificant | Insignificant | Minor | Moderate | Major | Extraordinary

Potential impact

- Low R / O: Routine management
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Going Beyond Risk Anticipation

Scenarios, Strategies and Real Events

Scenario 1

Scenario “N”

Real Event – Anticipated or Not
Resilience Through Business Continuity

• **Anticipation**
  – Assess key risks
  – Generate plausible scenarios
  – Identify continuity strategies and write concise plan
  – But you must be able to respond to any situation

• **Resilience**
  – The plan is not enough
  – Business interruption insurance is not enough
  – Resilience comes from a tested continuity mindset

• **Focus**
  – Operations
  – Clients
  – Market share
When Continuity May Not Be Enough
Crisis Management Takeaway

- A crisis is an event that is life-threatening or that may destroy a business unit or the company’s reputation
- The crisis must be communicated quickly to management
- The Crisis Management Committee meets and the Plan is activated
- Only the SVP, Corporate Communications answers media queries
- Company actions must be aligned with corporate values

- The Corporation and all BUs must have a crisis management plan
- Here are the highlights of the plan:
  - You actually need 3 plans on hand: emergency, business continuity and crisis
  - Maintain 24h/7 link between BU and HO
  - The first 48hrs are critical
  - Decisions must be made ASAP
  - You cannot plan for all situations
  - Therefore, you need to have up-to-date critical contacts, ask the right questions, consult each other and make appropriate decisions timely
  - Personnel / public safety must come first
  - You must protect the company’s reputation
  - Restore operations as soon as possible
  - Reassess the situation by the hour
  - Be transparent while conveying your message
  - Have a substitute for each Crisis Committee member
Conclusion: Anticipation & Resilience

• Use the Competitive Value Chain Risk Dynamics Framework
  – to anticipate potential risk scenarios and follow through their propagation path and ripple effects, taking into account interdependencies, existing and potential risk management strategies, and counterparty risks.

• Develop, maintain and test a Business Continuity Mindset
  – that will go beyond your plan and allow you to be able to react to any situation when all else has failed.

• Crisis Management
  – You can’t underestimate the importance of stating (or revisiting) your corporate values clearly and of using them as guidance for your actions.
Conclusion: Anticipation & Resilience
THANK YOU!

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