

ENTERPRISE RISK MANAGEMENT

FOR NONPROFITS

A real world approach to

Enterprise Risk Management

What can happen?

- 9/11/2001
- Habitat Volunteers exposed to Asbestos
- Organization loses office space
- Service Animal organization suffers disaster

ERM is Not

- It is NOT:
 - Insurance
 - Business Continuity
 - Compliance

ERM is Not - ERM IS

- It is NOT:
 - Insurance
 - Business Continuity
 - Compliance

*ERM is understanding
the affect of uncertainty on objectives
and the effect of that uncertainty on
Expected Outcomes*

Forbes Insight – The Sharp Side of Risk

Key findings:

- Many executives don't have a comprehensive understanding of their company's exposure to risk.
- A significant number do not recognize the importance of a formal risk management.
- Those who have say they pay more attention to risks where they have a vested interest than generalized risks.

Forbes
INSIGHTS

ERM - Standards Definitions

COSO:

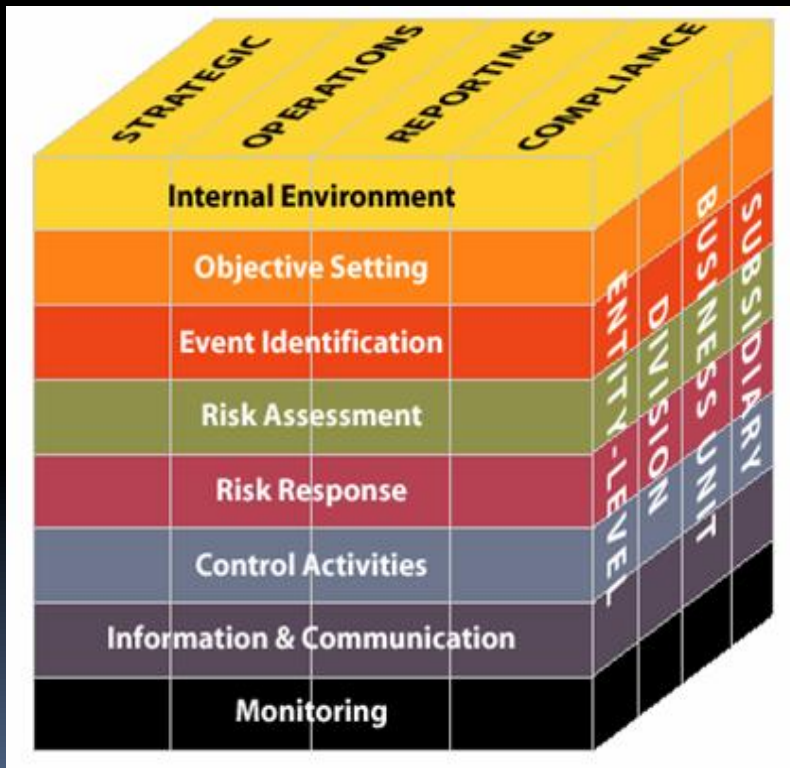
Enterprise risk management is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

- ISO 31000:

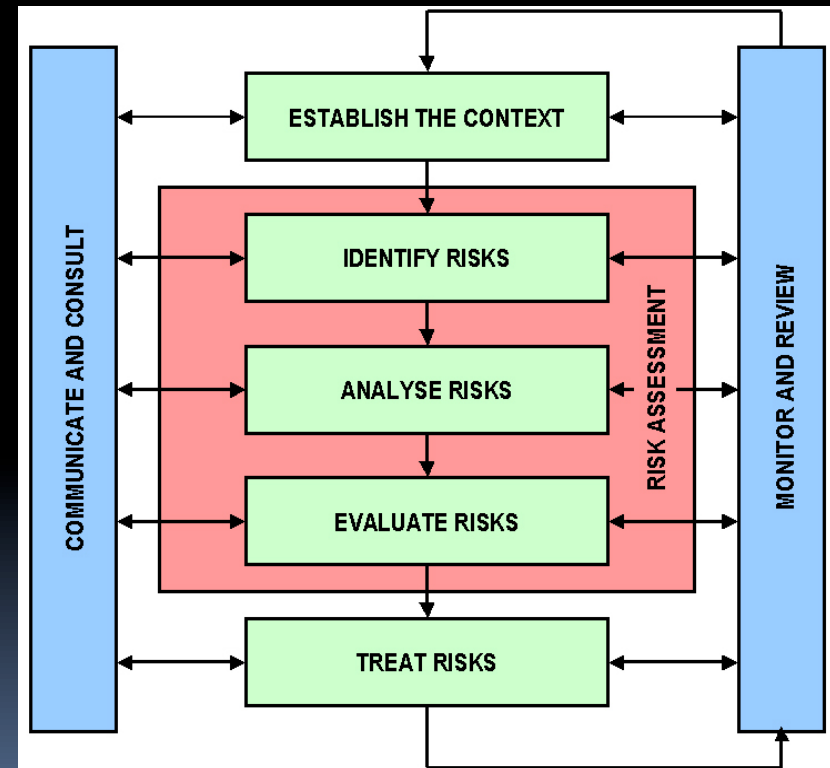
Risk management refers to a coordinated set of activities and methods that is used to direct an organization and to address the many risks that can affect its ability to achieve objectives.

Current Standards

COSO - ERM



ISO-31000



ERM - Straight to the Point

Identify

Prioritize

Mitigate

Monitor
and
Report

Measure

Enterprise Risk
Management

**STRAIGHT
TO THE
POINT**

An Implementation Guide
Function by Function

Al Decker Donna Galer

Why is it important, why do we need it?

- Strategic Value
- Qualitative Value
- Governance Value

Strategic Value

- Ensuring that the strategy has been well thought through
- Helping ensure that everyone is clear about the risk to company's direction
- An organization that understands its risk environment has a greater potential for meeting its goals

Qualitative Value

- Improved planning
- Intra organizational coordination
- Motivation and commitment
- Executive development

BTW:

These are identical to the value proposition of Management By Objectives (MBO)

Qualitative Value

- Contributes to the successful outcomes of strategic plans
- Improves decision making
- Improves execution of plans

Governance Value

Eight Elements of Good Governance

- *Rule of Law*
- *Transparency*
- *Responsiveness*
- *Consensus Orientation*
- *Equity and Inclusiveness*
- *Accountability*
- *Participation*

Where do we start?

AT THE TOP!!

- Executive Director/Board Chair
 - What's personal to them?
 - What will get their attention?
 - What will get their commitment
- Start with the strategy or business plan
 - What are the top priorities
 - What's important for sustainability

Making it work – Get Personal

- Executives say they pay the most attention to risks closely aligned with their interests:
 - Executives in Banking/Financial Services
 - Regulatory risk
 - Executive in Real Estate
 - Market risk
 - Executives in Healthcare
 - Regulatory risk.
 - Executives in Construction
 - Environmental risk

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INSIGHTS

The point of ERM should be to make every risk personal to someone

The whole organization should be involved

- Each individual function needs to identify, mitigate and manage its risk
 - Every function contributes to the organizations success and therefore to the management of risk.
- Functional leaders need to understand
 - The risks within their functions;
 - How those risks affect the strategy; and
 - How those risks affect other functions.

Democratize Risk Ownership

- Strategy Risk Owners
 - Those charged with the success of strategic goals
- Functional Risk Owner
 - How functional risk relates to the strategy;
 - How it relates to other functional areas; and
 - How it may be changing over time.
- Risk Category Owners
 - Subject matter experts with whom both the strategy owner and the functional risk owner may consult

Categorizing Risk

| External | Internal |
|-------------------------|------------------------|
| Funding Sources | Strategic |
| Politics | Staffing/Volunteers |
| Legal and Regulatory | Information Technology |
| Competitive Marketplace | Operational |
| Catastrophic Demands | Contracting |
| Social Issues | Reputational |

Identify Risk at its Source – 2 Views

- Functional Vantage Points

1. Strategy elements that are dependent on a specific function
2. Tactical decisions that may create a risk for a specific function
3. Risks external to the organization that may impact the function

- Dynamic Vantage Points

1. Past issues/risks faced by the functional area
2. Impending political/regulatory changes and trends
3. Impending socioeconomic changes and trends



Identify

ERM Process Point: Prioritize

- Establish consistent scales for the organization



Prioritize

ERM Process Point: Prioritize

Impact Scale

| | 5 | 4 | 3 | 2 | 1 |
|---|------|--------|--------|--------|--------|
| Erosion of Funding | 100% | 75% | 50% | 25% | <10% |
| Fines and Penalties | \$1M | \$500K | \$250K | \$100K | <\$25K |
| Operational Costs | >20% | 10% | 5% | 2% | <1% |
| Loss of Staff/Volunteers | >60% | 30% | 10% | 5% | < 1% |
| Reputation Impact – Loss of Benefactors | >8 | 6 | 4 | 2 | 1 |

Likelihood Scale

| | Timeframe | Occurrence | Intensity |
|---|-----------|--------------|------------|
| 5 | Immediate | Imminent | Highest |
| 4 | 3 months | Very Likely | Very high |
| 3 | 12 months | Likely | Increasing |
| 2 | 30 months | Occasionally | Normal |
| 1 | 60 months | Unlikely | Low Level |

Prioritize

ERM Process Point: Prioritize

- Establish consistent scales for the organization
- Get agreement across the organization
 - Input from a diverse group of individuals

Enter the Jellybean



Prioritize

Columbia School of Business - 2007

- Professor Michael Mauboussin presented a big jar of jelly beans to his seventy-three Columbia Business School students.
- Guesses ranged from 250 to 4,100;
 - The actual number was 1,116 - The average error was 700
- **But:**
 - The average of the guesses - 1,151 (just 3% off the mark).
 - Only 2 of the 73 students guessed better than this group average.
- **Conclusion:**
 - Individually – Woefully Inaccurate
 - Collectively – Incredibly Accurate


Prioritize

ERM Process Point: Prioritize

- Establish consistent scales for the enterprise
 - Impact and Likelihood
- Get agreement across the enterprise
 - Input from group of diverse executives
 - Jellybean the feedback
- Drive from qualitative to quantitative
 - No substitute for business judgment
 - Use metrics to validate judgment

Prioritize

ERM Process Point: Mitigate

-  Problem: Asked to identify the barriers to effective ERM more than 30% of executives said it was a lack of understanding of **how** to best mitigate risk.
- Solution:
 - Business-Process based mitigation
 - Ensuring everyone knows their role

Mitigate

Let's bring it close to home

- What is the ESC of the Triangle doing?
 - Conducting an ERM Study in connection with annual plan development
 - Developing a training program for all consultants
 - Developing a suite of service offerings including
 - Off-site workshops – offered quarterly
 - On-site workshops – client specific
 - Client ERM Plan Development
 - Integrating ERM concepts into all other offerings