

Risk Management Made Simple **Advisory**

An online publication of risk management tips for executives
from **Diana Del Bel Belluz** and *Risk Wise*

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How to Increase the Value of ERM – PART 1

By **Diana Del Bel Belluz, M.A.Sc., P.Eng.**

ERM leaders often struggle to demonstrate to executives how their ERM Program provides value. In this article, I share the results of some recent research that reveals major gaps in how ERM programs contribute to their organizations' value creation cycle. I also share tips on how to increase the value of ERM by bridging those gaps.

How does ERM typically add value?

To answer this question, I used **The Growth Cycle** model (Figure 1) developed by **Henk Krijnen** of **NavIncerta**. The model divides the value creation cycle into three phases and identifies the disciplines that have evolved to handle risk and uncertainty in each phase.

- Phase 1 is running the **Ongoing Business** and delivering on corporate objectives. This phase is the focus of the **Enterprise Risk Management** discipline.
- Phase 2 is **Strategic Visioning** to decide the business model and strategies that will position the company for success in the future. This phase is the focus of the **Strategic Planning** discipline.
- Phase 3 is **Transitioning** by choosing and resourcing investments, projects and initiatives to move the

organization from its existing business configuration to an evolved one as envisaged in Phase 2. This is the focus of the **Decision Analysis** discipline.

I asked ERM leaders what are the main activities of their ERM programs and how those activities contribute to **The Growth Cycle**. As figure 2 reveals, typically:

- 75% of ERM efforts are spent on the **Ongoing Business** phase. Most ERM programs focus primarily on providing assurance to the board about the risks to the current objectives through the corporate risk profile and quarterly and/or annual reporting.
- 10% of ERM efforts are applied in the **Strategic Visioning** phase, mainly to provide a risk lens to the organization's processes for environment scanning and strategic planning.
- 15% of ERM efforts are applied in the **Transitioning** phase to understand and evaluate the risks of potential investments, initiatives, and projects.

The analysis shows that ERM programs primarily serve in an assurance role focused on the risks to the company's current strategic objectives.



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While handling the risks to achieving corporate objectives in *Phase 1: Ongoing Business* is table stakes for any ERM program, it doesn't add much value to the Growth Cycle.

Given their focus on the present rather than the future, it stands to reason that ERM programs are sometimes perceived as not providing much value, particularly by executives who must weigh large uncertainties about the future in their strategic decisions.

How can ERM add more value?

Here are two tips (and several resources) on how ERM leaders can enhance their value by strengthening the risk lens applied throughout all three phases of *The Growth Cycle* by both:

- adopting techniques from the disciplines of Strategic Planning and Decision Analysis, and
- collaborating with other colleagues (e.g., strategic planning, investment analysts) to better support decision-makers to create value.

Tip #1: Provide Better Risk Assessment

Most ERM programs use risk matrices or heat maps as the main tool for assessing risk. Two weaknesses of these tools is that they are highly qualitative and that they rely heavily on expert opinion which can be skewed by various types of cognitive bias¹.

¹ *The Failure of Risk Management: Why It's Broken and How to Fix It*, Douglas W. Hubbard. John Wiley & Sons, Inc., 2009.

These shortcomings can be overcome by adopting more evidence-based and quantitative approaches, for example:

- **Italian Flag** is a technique that enables you to quickly conduct an evidence-based assessment of the likelihood that a risk event will occur. The focus on evidence helps to minimize the bias that can creep in when using more subjective methods such as the risk matrix approach which relies heavily on judgement and opinion
- **Range Assessment** is a technique that enables you to estimate a range for a variable (e.g., impact or cost of a risk event) which more realistically represents and communicates the uncertainty in the estimate than a single number would

In April 2019, **NavIncerta** and **Risk Wise** are launching Virtual Learning Bites on the **Italian Flag** and **Range Assessment** techniques. For information, see the box on the next page.

For more tips on how to strengthen your risk assessment practices, see previous Advisory articles:

- July 2009: [***Are Your Risk Models Flawed?***](#) It contains 3 lessons on risk assessment models and **9 tips on how to avoid common mistakes calculating and applying risk estimates**.
- March 2017: [***How to Leverage 'The Global Risks Report' to Enhance Your Risk Intelligence – PART 3***](#) contains a **simple methodology for analyzing key interdependencies between known risks**.

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Tip#2: Look further out into the future

One drawback of focusing ERM on the risks to current objectives in *Phase 1: Ongoing Business*, is **it tends to shorten our vista to a myopic 1-2 years** and that blinds us to the risks that could affect the company's ability to sustain or grow its value.

Phase 2: Strategic Visioning and *Phase 3 Transitioning* **require that decision makers consider risks and uncertainties over a long time horizon**, typically at least 3-5 years. Indeed in industries such as utilities, mining, oil & gas, steel, pharmaceuticals, etc. where huge investments are required to acquire and develop assets, decision makers need to understand the risks over extremely long time horizons, e.g., 25, 50 or even 100 years.

For tips on how to cultivate a longer-term perspective, see previous Advisory articles:

- February 2017: [How to Leverage 'The Global Risks Report' to Enhance Your Risk Intelligence – PART 1](#) which gives **2 tips on how to leverage your understanding of trends** to remove the bias of short-termism and develop resilience to external factors that can pummel your organization.
- March 2017: [How to Leverage 'The Global Risks Report' to Enhance Your Risk Intelligence – PART 2](#) contains a **simple step-by-step process for conducting a foresight exercise**.

In future issues of the Advisory, I will explore more ways that ERM can add value, for example by embracing scenario analysis, and articulating and applying a risk appetite statement. I would **welcome your suggestions** on article **topics that you would help you increase the value of your ERM program**.

The Risk Wise bottom line...

ERM programs that are exclusively focused on the risks to current corporate objectives struggle to demonstrate their value beyond providing assurance in the near-term.

By integrating ERM with the disciplines of Strategic Planning and Decision Analysis, ERM leaders can make a significant contribution to their organization's creation capabilities through all phases of *The Growth Cycle*.

To explore how you can enhance the value of your ERM program and mobilize for growth, **contact Diana Del Bel Belluz** at Diana.Belluz@riskwise.ca or (416) 760-7362

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About Us



Diana Del Bel Belluz
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Diana Del Bel Belluz, M.A.Sc., P.Eng., is the creator of **The Mobilize For Growth Program™**. For over 28 years Diana's thought leadership has earned her an international following as a speaker and author on a wide range of business topics that support business leaders to improve their organization's performance and resilience.

At **Risk Wise**, we work with successful business leaders who have a growth mindset and want to improve their organization's performance.

Diana created **The Mobilize For Growth Program™** based on her experience working with hundreds of business leaders over the past 25+ years. The program helps business leaders to achieve their company's growth objectives by fully mobilizing their people and resources. It also helps them avoid **The Risk Paralysis Trap™**.

To learn more about Risk Wise, contact Diana Del Bel Belluz directly at: Diana.Belluz@riskwise.ca



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