



**Risky Business:
Employing Enterprise
Risk Management to
Sustain Growth, Mitigate
Threats, and Maximize
Shareholder Value**

A best-practice report from

APQC[®]
PUBLICATIONS

Risky Business: Employing Enterprise Risk Management to Sustain Growth, Mitigate Threats, and Maximize Shareholder Value

A best-practice report from



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STATEMENT OF PURPOSE

The purpose of publishing this report is to provide a reference point for and insight into the processes and practices associated with certain issues. It should be used as an educational learning tool and is not a “recipe” or step-by-step procedure to be copied or duplicated in any way. This report may not represent current organizational processes, policies, or practices because changes may have occurred since the completion of the study.

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Sponsor Organizations

BT Group plc

Embarq Corporation

Federal Highway Administration

National Financial Services Organization

IBM

KPMG

Kuwait Petroleum Corporation

**Petroleum Company of Trinidad and
Tobago Limited**

Sprint Nextel Corporation

Tennessee Valley Authority

Washington Mutual Inc.

Partner Organizations

Blue Cross and Blue Shield of Florida

FirstEnergy

Fonterra Co-operative Group Ltd.

Split Rock Energy

The United Illuminating Company

Executive Summary

Security is mostly a superstition. It does not exist in nature, nor do the children of men as a whole experience it. Avoiding danger is no safer in the long run than outright exposure. Life is either a daring adventure or nothing.
— Helen Keller

When you hear or think about risk, which feeling is provoked more commonly—threat or safety? Your immediate response probably depends on such factors as your current environment, present state of health, recent events, or future expectations. When reacting to a risky situation, you might choose one or a combination of possible actions, such as avoiding, combating, retreating, or taking no action at all.

After facing a risk, how do we know if we acted in the optimal manner? Well, since we are never free from risk, we will have another chance to respond and improve our performance. The most valuable lessons we can learn from our repeated exposure to risk are to anticipate risk opportunities, to take immediate action, and to decide whether to mitigate a threat or dare to be adventurous.

APQC launched the Risky Business consortium benchmarking study to understand how organizations manage risk. Many organizational leaders probably share Keller's thought: Attempting to avoid risk altogether is not a safe strategy for sustaining growth, mitigating threats, or enhancing the bottom line. In our economy, risk, volatility, and uncertainty are inherent. Enterprise risk management (ERM) is a modern way of enabling organizations to address risk uniformly.

In a recent ERM Point of View by Crowe Chizek, the research champion for this study, the authors wrote that "ERM [is] an amorphous concept. Thus, it must be demystified." Throughout this report, I will use key terms provided by Crowe Chizek.

- **Risk**—Inherent in any business venture, risk can never be eradicated. It is an opportunity for financial gain, as well as a hindrance to achieving business goals.
- **Risk management**—In some minds, risk management means insurance, but it is a much broader concept. Risks can be categorized as strategic, operational, compliance, or reporting. Risk management is an organization's strategic response to risk.

¹Crowe Chizek and Company LLC. "Enterprise Risk Management: A Practice Plan to Get Going Now." White Paper. Crowe Chizek and Company LLC, 2006.

- **ERM**—Enterprise risk management enables organizations to identify and manage all significant risks in an integrated way. ERM covers a broad portfolio of risk. Risk assessments are firmly rooted in an understanding of the business, its customers, and management’s strategic objectives.

The key question in this research study was, “How do best-practice organizations integrate the management of strategic, business, customer, financial, operational, and people risk from across the enterprise and around the globe to mitigate threats and maximize shareholder value?” The 11 research findings answer this question in detail.

For approximately 10 years, I have facilitated countless APQC consortium research and process improvement studies; during that time, I have noticed a set of universal critical success factors:

1. **Senior management support is critical.** They must not only provide financial support, but also walk the talk, understand the process, monitor performance, and facilitate multi-directional communication of the program. Study results reveal that a board of directors or a board sub-committee must have ultimate ERM accountability.
2. **Knowledge is information in action.** All organizational team members need the right information in the right format at the right time at the right cost in order to perform their roles efficiently and effectively. Best-practice partners employ a variety of methods to provide information to employees. A majority of partners use ERM applications, reporting and analysis tools, and standard software applications to perform ERM. In addition to promoting explicit knowledge exchange, ERM leaders administer surveys and conduct interviews to facilitate tacit knowledge sharing. The frequency of information sharing varies from daily to quarterly, and the frequency driver is based on the business need.
3. **What gets measured is what gets done.** Moreover, the reverse: What is not measured might not get done. That is, a measurement program can drive the right or the wrong behaviors. Best-practice organizations incorporate a family of measures (quality, cost, and cycle time) or a balanced perspective into measurement programs. Performance measures align with corporate strategy, and performance targets and metrics change as needed. In addition to defining, measuring, and monitoring risk, leaders assess the performance of the ERM program. This is part of the ERM continuous improvement cycle.
4. **Process improvement, knowledge management, change management, performance management, and similar processes are not events.** These strategic programs or processes align with corporate objectives and evolve continuously. Partner organizations recognize that ERM is not simply a one-off risk survey, but an ongoing process of measurement and evaluation.
5. **Remember the softer side.** The best organizational assets are people. One of this study’s findings is that everyone is a risk manager. The researched best-practice organizations use a variety of ongoing formal training mechanisms to ensure that employees understand ERM. Furthermore, partner organizations agree that communicating success stories is a great method of explaining the value and methodology of ERM.
6. **Don’t try to boil the ocean.** Some organizations nearly drown when implementing or improving programs because they strive for an enterprise-wide approach immediately; launch without proper training, resources, and senior leadership support; or fail to set realistic expectations. Study findings reveal that ERM is in the early stages of development in many organizations; ERM programs typically do not reach maturity until the fifth year of implementation.

As you establish or improve an ERM program, I hope that you will exploit the innovative approaches shared by our study's best-practice partners, as well as the thought leadership provided by our special advisers in this report. Business, like life, can be a daring adventure or a legacy of roads unexplored—it depends on how you respond to the risk!

— Sebastian Francis, financial management program manager, APQC

STUDY SCOPE

Drawing on input from the study advisers, study sponsors, and secondary-research literature, the APQC study team identified four key areas for research. These areas guided the design of the data-collection instruments and formed the basis on which the study findings were developed. The study focused on:

1. Developing an enterprise risk management (ERM) program
2. Defining a governance model and support structure
3. Collecting, analyzing, and sharing ERM information
4. Gauging success

The organizations selected for deep, detailed study through structured data collection and site visits (aka “partners”) demonstrate innovative performance in one or more of the study focus areas. The goal of the project was to examine organizations that excel in one or more aspects of the scope and to identify the best practices from all the researched organizations. To achieve this goal, the APQC study team selected potential best-practice partners that had demonstrated excellence and a history of success in the scope areas above.

Overview of Findings

The study team identified 11 overarching insights and findings from the best-practice partners. The approaches taken by the best-practice partners provide many insights into how their organizations conduct comprehensive enterprise risk management. Greater detail is available in the report chapters that follow and in the best-practice-partner case studies presented at the end of this report.

Chapter 1: The Tao of Risky Business

1. Maturity of ERM capabilities enables partner organizations to be more agile and flexible in responding to business needs.
2. ERM is not a stand-alone or discrete activity, but a part of everyday life—a performance improvement effort.

Chapter 2: The Faces of Risky Business

3. Effective ERM is conducted at the corporate level in order to communicate policy and provide support to the entire organization.
4. The view from the top: ERM is successful when championed at the enterprise level and owned by the CEO/board of directors.
5. Everyone is a risk manager.

Chapter 3: ERM as a Core Process

6. Risk management is part of the strategic planning process.
7. Mature ERM practices leverage technology to automate data capture and report risk measures.
8. Formal ERM training enables risk management.

Chapter 4: Multiple Measures = Rational Risk

9. Measurement frameworks provide a comprehensive understanding of the value of ERM.
10. Soft measures can further validate ERM.
11. A balanced approach for measuring ERM is an effective method of gauging success.

STUDY METHODOLOGY

APQC's consortium benchmarking study methodology (Figure 1) was developed in 1993 and serves as one of the premier methods for successful benchmarking in the world. It was recognized by the European Center for Total Quality Management in 1995 as first among 10 leading benchmarking organizations' models. It is an extremely powerful tool for identifying best and innovative practices and for facilitating the actual transfer of these practices.

APQC's Benchmarking Model: The Four-Phased Methodology



Figure 1

Phase 1: Plan

The planning phase of this study began in April 2006. During this phase, APQC conducted research to help identify innovative organizations that might participate as best-practice candidates (the best-practice partners). In addition to this research, APQC staff members, the special advisers, and sponsoring organizations identified potential participants based on their own experiences and knowledge. Each recognized organization was invited to participate in a screening process. Based on the results of the screening process, as well as organization capacity or willingness to participate in the study, a final list of potential best-practice partner candidates was developed.

The study kickoff meeting was held in August 2006, during which the sponsors were invited to refine the study scope and give input on the data-collection tools. The project team announced the five best-practice partner organizations who would host three virtual and two face-to-face site visits: Blue Cross and Blue Shield of Florida, FirstEnergy, Fonterra Co-Operative Group Ltd., Split Rock Energy, and The United Illuminating Company.

Phase 2: Collect

Four tools were used to collect information for this study:

1. **screening questionnaire**—qualitative and quantitative questions designed to identify best practices within the candidate partner organizations;
2. **sponsor assessment**—qualitative and quantitative questions designed to assess sponsors' current ERM practices;

3. **detailed questionnaire**—quantitative questions designed to collect objective, quantitative data across all participating organizations; and
4. **site visit guide**—qualitative questions that parallel the areas of inquiry in the detailed questionnaire, which serves as the structured discussion framework for all site visit presentations.

The five best-practice partner organizations selected for continued participation in the study responded to the screening questionnaire. The best-practice partners also hosted virtual and face-to-face site visits attended by sponsors and members of the study team. The APQC study team prepared written reports (case studies) of the site visits and submitted these to the best-practice partners for approval.

Phase 3: Analyze

The study advisers and APQC analyzed both the quantitative and qualitative information obtained through the data-collection tools. The analysis concentrated on examining the challenges organizations face and the enablers the best-practice partners employ in the four study focus areas. An analysis of the data, as well as case studies based on the site visits, is contained in this report.

Phase 4: Adapt

Adaptation and improvement, stemming from identified best practices, occur after readers apply key findings to their own operations. APQC staff members are available to help readers create action plans appropriate for their organizations.

PARTICIPANT PROFILES

Figure 2 depicts the industry breakdown for the organizations participating in the detailed questionnaire.

Figures 3 and Figure 4, page 12, depict the sizes of the organizations participating in the detailed questionnaire; information is provided on number of employees and annual revenue.

ABOUT APQC

A recognized leader in benchmarking, knowledge management, measurement, and quality programs, APQC helps organizations adapt to rapidly changing environments, build new and better ways to work, and succeed in a competitive marketplace. For more than 25 years, APQC has been identifying best

Participant Industry Representation

Industry	Percent of Participants
Bank	15.4%
Distribution/Transportation	7.7%
Energy	15.4%
Food and beverage	7.7%
Insurance	7.7%
Services	4.8%
Telecommunications	15.4%
Utilities	23%

Figure 2

Number of Employees

Employees	Percentage
Less than 5,000	25%
Between 5,000 and 10,000	16.7%
Between 10,000 and 25,000	33.3%
Greater than 25,000	25%

Figure 3

Annual Gross Revenue

Annual Gross Revenue	
Between \$500 million and \$1 billion	9%
Between \$1 billion and \$5 billion	18%
Greater than \$5 billion	72%

Figure 4

practices, discovering effective methods of improvement, broadly disseminating findings, and connecting individuals with one another and with the knowledge, training, and tools they need to succeed. APQC is a member-based nonprofit serving more than 500 organizations around the world in all sectors of

business, education, and government. Learn more about APQC by visiting www.apqc.org or calling 800-776-9676 or +1-713-681-4020.

SPECIAL ADVISERS

David Axson, Founder and President, The Sonax Group

David Axson is the founder and president of The Sonax Group, a business research and consulting firm based in Bath, Ohio. Axson was a cofounder of The Hackett Group in 1991 and spent 11 years with the firm, during which time he was the architect of the firm's market-leading benchmarks of business planning, SG&A, human resources, and information technology.

Bob Paladino, Founder, Bob Paladino & Associates

Bob Paladino, former senior vice president of global performance for Crown Castle, reported to the CEO and played a critical role in directing the organization's global CPM programs to drive its operational excellence strategy. He led programs to win Kaplan & Norton's coveted Balanced Scorecard Hall of Fame Award and APQC's Best-Practice Award.

He served as the vice president and global consulting practice leader for Drs. Kaplan & Norton at the Balanced Scorecard Collaborative in affiliation with Harvard Business School. Paladino has a dual M.B.A. in finance and management from the Wharton Graduate School of Business at the University of Pennsylvania.

RESEARCH CHAMPION

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