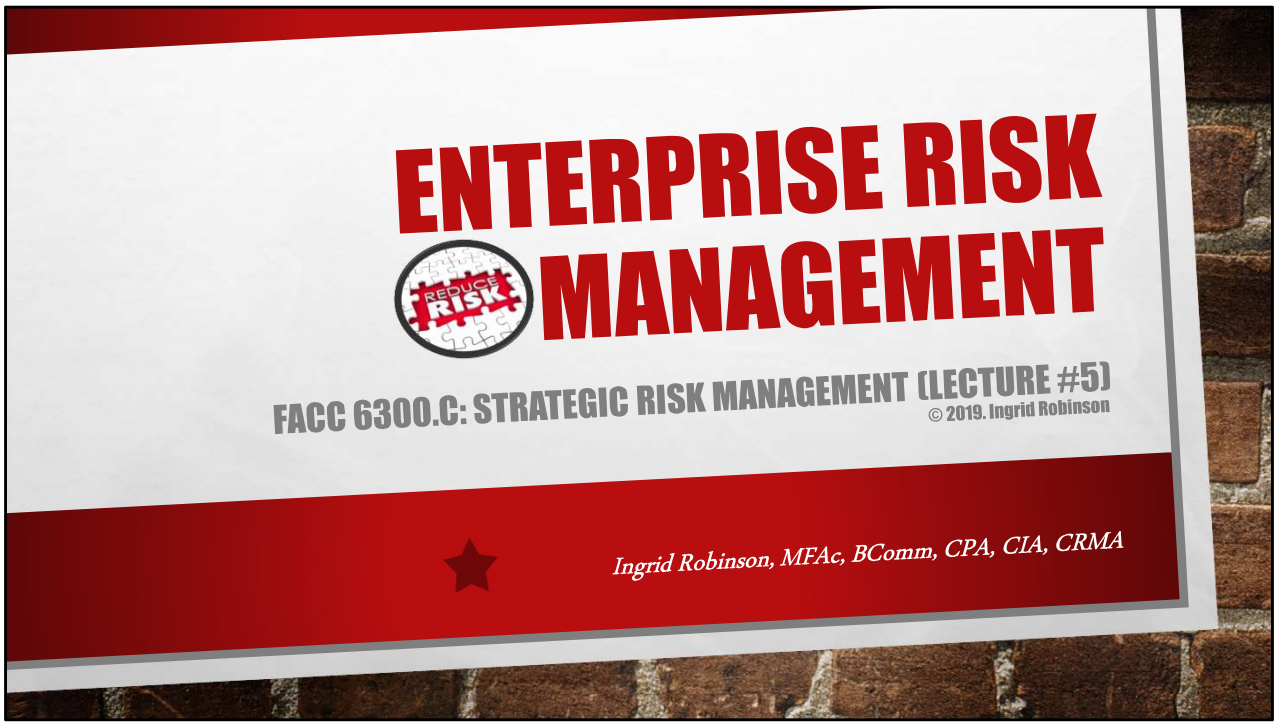


Reminders: 1) Group 2 & 3 company selection

Good evening. We are now beyond the introductory stage of ERM, and moving into our first advanced risk management topic, strategic risk management.

AGENDA

- Guest Speaker (Caroline Copeman)
- BREAK
- Strategic Risk Management Theory
  - Strategic Planning
  - SRM: Key Definitions
  - SRM Methodology
- Cases: Lego & Tetra Tec

Much of the techniques we discussed in the past few weeks aid in the identification of operational risks/preventable risks, hazards/external risks, and we will now focus on the strategic risks, an area that is the responsibility of senior leaders and executives in a firm. You may recall that at Brookfield the CEO and CFO are responsible for the strategic risks.

The techniques applied in the case, which I trust that you have all completed, will give you the tools to work with senior leaders to unearth strategic risks.

About Me and MC2

Caroline Copeman is a business advisor, management consultant, entrepreneur, business owner, corporate executive and board director. Caroline's passion is innovation and entrepreneurship, having been part of numerous startup ventures. Caroline started off her career as a genetics researcher and shifted over to business once she got the startup bug. She has worked extensively in the food and beverage, life sciences, technology, non-profit and professional services sectors, and enjoys being part of the local and global entrepreneurial ecosystem through mentorship roles with Futurpreneur, Canadian Forum for Entrepreneurs and the Cherie Blair Foundation for Women.

MC2 Business Advisors is a boutique advisory firm providing a full range of strategy, operations, M&A and corporate finance advisory services for business owners and small to mid-size enterprises at all stages of the business life cycle, including start-up operations.

Putting Strategic Risk Management to Work

CAROLINE COPEMAN, MBA
MC2 BUSINESS ADVISORS

CCOPEMAN@MC2BA.COM

What do we mean by **STRATEGY** in business?

- ✓ Strategy defines **WHAT** a business does and the **KIND** of company it is:

  Airbnb is an online marketplace that lets people rent out their properties or spare rooms to guests. Airbnb takes commission from hosts and guests

- ✓ Strategy **DIFFERENTIATES** the business from others:

  Airbnb is different because of the network it creates

5

What are the components of **STRATEGY?**

- ✓ Describes the overall mission, or **GOALS** for the company:

  To create a world where people can belong through healthy travel that is local, authentic, diverse, inclusive and sustainable

- ✓ Defines the **PRODUCT** and **MARKET** focus:

  Community-based online platform for listing and renting local homes for business and vacation travel

- ✓ Describes the company **VALUE PROPOSITION**:

  Guarantee quality and safety to ensure guests and hosts trust the service and are protected

- ✓ Defines the company's **CORE ACTIVITIES**:

  Focuses on what people want, including hosts, guests and partners

6

Why does risk matter for **STRATEGY**?

Risks get in the way of successfully delivering business strategy, especially if companies are not ready.

Consider these headlines:

- Tempe considers regulating Airbnb-type short-term rental properties
- Airbnb Crackdown Will Likely Cause Big Drop In Oahu Tourism
- Dunedin Airbnb turned into brothel while owner on holiday
- Neighbours demand action over noise and nuisance of Airbnb party house

Did Airbnb anticipate the backlash? Or are they now REACTING?

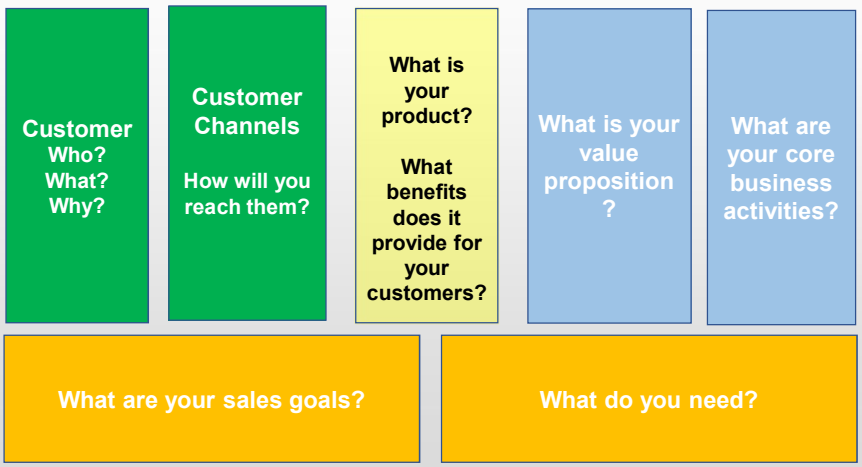
Discussion

- ✓ What are the 3 most critical risks facing AirBnB?
- ✓ What is the impact of these risks on the AirBnB strategy?
- ✓ What should AirBnB leadership do to mitigate these risks?

Two Strategic Planning Tools

9

A Strategy Canvas can help you plan



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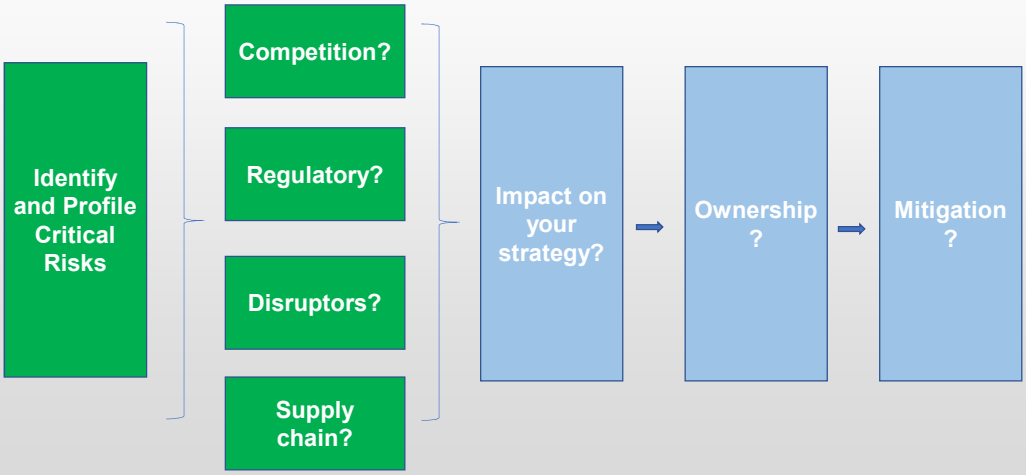
Strategic Risk Management can help you execute



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Questions?

Team Activity: Oculus VR

Play the next level of gaming.

13

Team Activity

1. Get in three teams of 5-6 people. Choose a note taker and a presenter.

2. Using the Strategy Canvas as a guide, do some research to understand Oculus VR's business strategy, specifically:

- ✓ What are their GOALS?
- ✓ What is the PRODUCT MARKET FOCUS?
- ✓ What is their VALUE PROPOSITION?
- ✓ What are their business CORE ACTIVITIES?

3. Using Strategic Risk Management as a guide, work together to:

- ✓ Identify the 3 critical risks that Oculus VR faces as it executes its business strategy
- ✓ Describe the impact each risk has on the strategy
- ✓ Propose a mitigation approach for each risk

4. Present your ideas to the class (5 minutes per team)

Debrief on Oculus VR Team Activity

- ✓ How did your team approach the task?
- ✓ How did you use the tools (if you did)?
- ✓ What did you learn?

15

Thank you!

Caroline Copeman, MBA
MC2 Business Advisors

STRATEGIC RISK MANAGEMENT

THEORY

“ US BOARDS ARE DISCUSSING TOP STRATEGIC RISKS LESS FREQUENTLY THAN BOARDS IN OTHER PARTS OF THE WORLD (26% VS. 42%) ”

CGMA REPORT. GLOBAL STATE OF ENTERPRISE RISK OVERSIGHT, 2ND EDITION.

Apart from appointing the CEO, approving the strategy is the top responsibility of the board, and as we’ve established, that strategy should be risk informed.

But today, it is startling to unveil that only 26% of Boards are discussing strategic risks, and this compares to 42% of boards in another parts of the world.

This is consistent with the research that shows that not many firms are using risk management to drive strategic advantage. This needs to change.

WHAT IS STRATEGY?

- Basic ideas of the business (mission/vision/values) formulated into a plan of action
- Articulation of the organization's direction
- Concrete expression of how an organization intends to compete and win in its marketplace
- Tool for building, communicating and maintaining the direction of the business

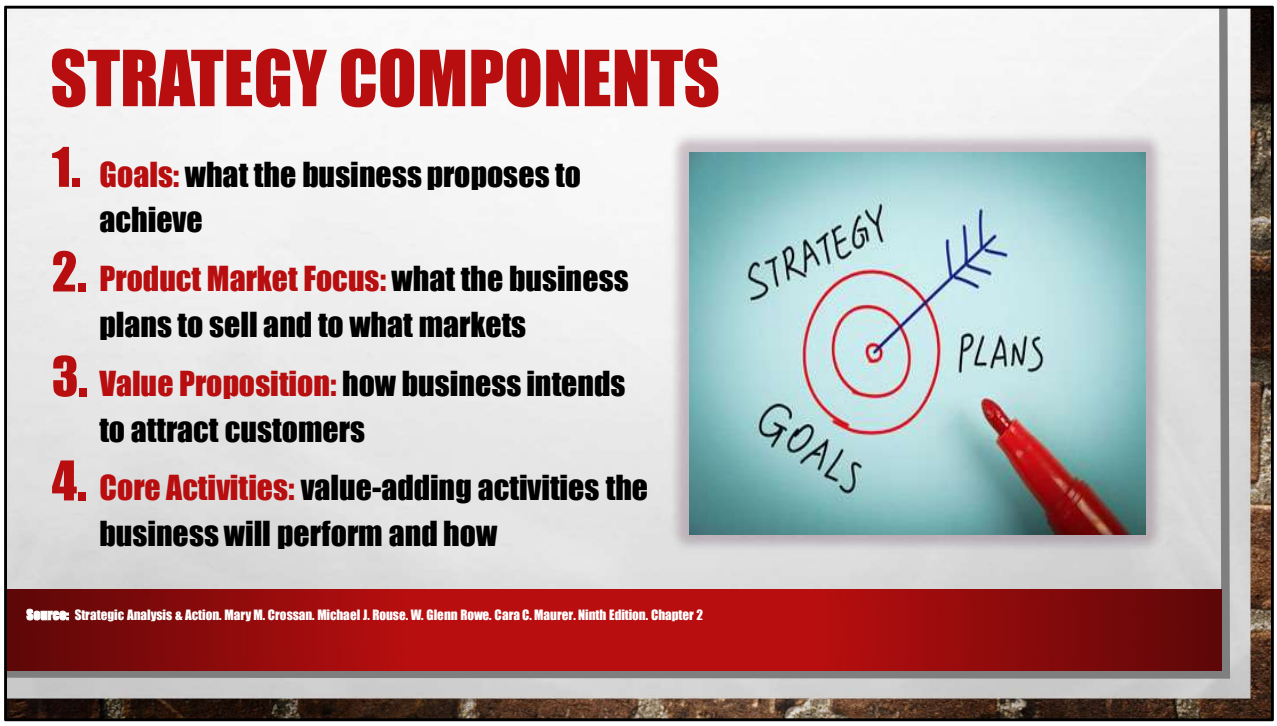
Source: Strategic Analysis & Action. Mary M. Crossan. Michael J. Rouse. W. Glenn Rowe. Cara C. Maurer. Ninth Edition. Chapter 2

How many of you have taken a course in business strategy? For those who haven't, I encourage you to purchase the optional reading Strategic Analysis & Action, which is a short strategic planning primer.

Now, a strategy is the articulation of how a firm intends achieve its strategy, and where it intends to go, or its direction

From that standpoint, it should concretely express how a firm intends to compete and win in the market

By having the strategy written down, it serves as a guide that can be checked in on to ensure the business is heading in its intended direction



Now there are 4 key components to a strategy:

1. Goals: what the firm proposes to achieve – grow revenue by 10% per year

2. Product Market Focus: a business can't be all things to all stakeholders. It therefore sets what it is they plan to sell and to what markets, shoes for children

3. Value Proposition: how they will attract buyers of children's shows

4. Core Activities to support achievement of the goals

Hidden Figures: https://www.youtube.com/watch?v=mdxXT8INVV8

Strategic risk management is managing the risk associated with your business strategy and includes evaluating events and scenarios that can have a negative or positive impact on performance. The concept of SRM is to make your leadership team more agile in responding to events if and when they occur

Leaders should focus on the risks that really matter – namely, strategic risks that threaten their firm's existence. Whether you are HMV or Blockbuster who no longer exist because of failure to manage strategic risk associated with digital music and video emergence…..or target Canada existence threatened and succumbed by failing to manage strategic risk associated with geographic market entry

Has anyone see the movie hidden figures…..the story of the IBM machine..

What we see here is a group of women….human calculators…….about to be replaced by computers…….reinvented themselves in the new reality as computer programmers……a true testament to managing strategic risk of threatened

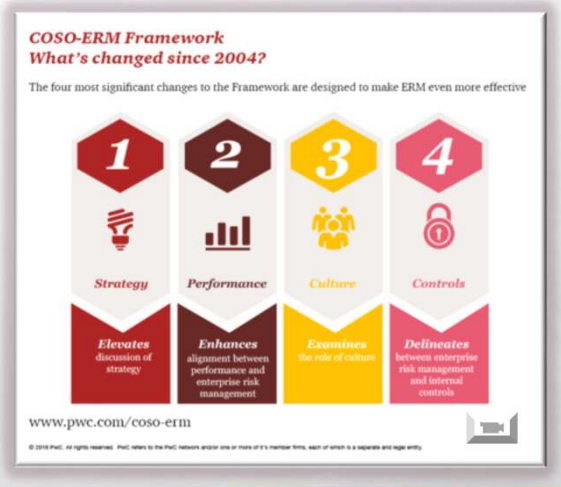
existence.

STRATEGIC RISK MANAGEMENT DEFINED

Strategic Risk: risks most consequential to the organization's ability to execute its strategies and can ultimately affect shareholder value or the viability of the organization.

SRM: process of identifying, assessing and managing the risk in the organization's business strategy—including taking swift action when risk is actually realized.

Ultimate goal is to create and protect shareholder and stakeholder value



Source: Strategic Risk Management: A Primer for Directors. Mark Frigo and Richard Anderson. 2012

Read definition.

As we have seen, the new COSO framework hones in on the Strategic Execution component.
****

PwC COSO ERM & Strategy: https://www.youtube.com/watch?v=zoGrgfQIM7w

Process for identifying, assessing and managing risks/uncertainties that could inhibit an organization's ability to achieve strategy, with the ultimate goal of creating/protecting shareholder and stakeholder value.

"

Companies that are able to truly align their risk management activities with their strategic planning process and/or strategic priorities are moving the needle from enterprise risk management

to strategic risk management.

Standard & Poor's included the following attributes for strategic risk management in its 2008 announcement that it would
apply enterprise risk analysis to corporate ratings:
Management's view of the most consequential risks the firm faces, their likelihood, and potential effect; The frequency and
nature of updating the identification of these top risks; The influence of risk sensitivity on liability management and
financial decisions, and The role of risk management in strategic decision making.

Strategic risks are those risks
that are most consequential to
the organization's ability to execute
its strategies and achieve its
business objectives.
Strategic risk management
is the process of identifying,
assessing and managing the risk
in the organization's business
strategy—including taking swift
action when risk is actually realized.
Strategic risk management,
then, is focused at the most consequential
and significant risks
to shareholder value

To differentiate strategic risk from other types of risk, not only do they threaten existence, they include market uncertainties, untapped opportunities and matters that impinge on the whole business rather than an isolated part of the business.

Like, demand shortfall……customers no longer want our products (children shoes)…….or we lose key clients……or we acquire another company to grow the business, and it ends up being a nightmare marriage!!!

This is differentiated from hazards, risks in the external environment that can't be directly control, or preventable, where you can control it.

A key concept underpinning strategic risk management then is Risk Resiliency (how resilient are we?) + and Risk Agility (how flexible are we to adopt to strategic threats?

If you are resilient, your long term success is more likely, where as the more agile you are the more likely it is that you will grow. It is important to strike the right balance. For example if you are not considering how you will weather "system shocks", while you focus on readily adapting, either extreme can be a slippery slope. By applying sound risk resilient techniques a firm can develop greater risk agility. The two concepts are interdependent, where if you are agile, you can respond to risks earlier, which in turn makes you more resilient.
**********8

To remain competitive in today's business climate, companies must pursue two parallel strategies:

(1) building agile and flexible risk management frameworks that can anticipate and prepare for the shifts that bring long-term success and (2) building the resiliency

that will enable those frameworks to mitigate risk events and keep the business moving toward its goals.

But agility alone takes you only so far: companies we've termed Faster Movers may be pursuing risk agility at the expense of risk resiliency; relying too heavily on the strength of their brands to weather risk events; and they may lack strategies for business continuity, succession planning, strategic alignment, and data analytics—all of which are critical factors for promoting enduring success.

We compared High Performers' risk agility responses with those of Faster Movers and found striking results. Faster Movers outscore High Performers in only two areas: They are slightly better at rapidly pursuing and mobilizing for new growth opportunities. But in every other metric we examined, High Performers actually score better on risk agility than Faster Movers do. As a group, High Performers score higher on agility than Faster Movers by more than seven points (66 for High Performers, 59 for Faster Movers).
This suggests that High Performers gain an "agility boost" by being highly resilient. In other words, their riskresilient techniques help them develop greater risk agility.

"Keeping our sights trained on the risk landscape really does help increase our agility," she says. "We're able to be better positioned to respond to changes in the business environment and regulatory climate and to changing market dynamics. And that agility helps us become more resilient: we can identify and respond to risk earlier, and that increases our ability

to withstand and craft controls to mitigate those risks.”

Here’s a great quote from Jim Collins, Stanford Business School Professor, who specializes in what makes companies endure

QUESTION FOR CLASS: Tell me visionary companies that come to mind?

Now a recent study conducted by PWC, found that the most high performing firms were both very resilient and agile. While the fast movers, are agile, but not as resilient, because the are the "first" to launch. Whereas steady performers, may not move as fast, they wait for others to go first, and sustain their performance in the process.

****

Pharma companies rate themselves highly on their ability to rapidly pursue growth opportunities: 52% say they are good at this vs. 41% of total respondents. However, only 23%
use formal risk management techniques, 21% understand the velocity of risk, and less than
half say they can deal capably with challenges.
Healthcare payer and provider companies are significantly more likely than respondents overall to say they are good at identifying opportunities ahead of competitors,
but are among the least likely to employ formal risk management tools and

techniques,
at just 45%.
Financial services firms score highest in risk resiliency, and significantly outpace others
in their use of data analytics. For example, 73% use Key Risk Indicators (KRIs) vs. 53% of
all respondents. They are also more likely to have aligned risk management with strategic
planning.
Industrial manufacturing companies are significantly less likely to say they continuously adapt their risk approaches based on emerging risks. Just 35% of firms say they
do this, compared with 49% of total respondents.
Technology firms excel at identifying opportunities ahead of the competition: 56% of technology firms say they are good at this, compared with only 45% of total respondents.
Indeed, TICE (technology, information communications and entertainment) companies as
a group lead on virtually every measure when it comes to agility, though they fall behind
on many resiliency metrics. For example, only 23% say their employees understand their
company's business continuity strategies.
Retail and consumer products companies in our study are significantly more likely to have increased product offerings and are more likely to have expanded into new geographies.
And 45% of retailers say they have transformed technology platforms to meet opportunities,
compared with only 33% of CIPS (consumer and industrial products and services) respondents overall.

Looking at the results from an industry perspective,

Technology firms are the most agile

Pharma firms are highly agile, but only 23% employ ERM.

Retail is also highly agile.

Healthcare payers or providers have good agility, and are able to stay ahead of competitors, very few employ ERM

Financial institutions rank high on the resilience front, most align risk and strategy, consistent with what we have seen

Manufacturers are slow to adopt
****
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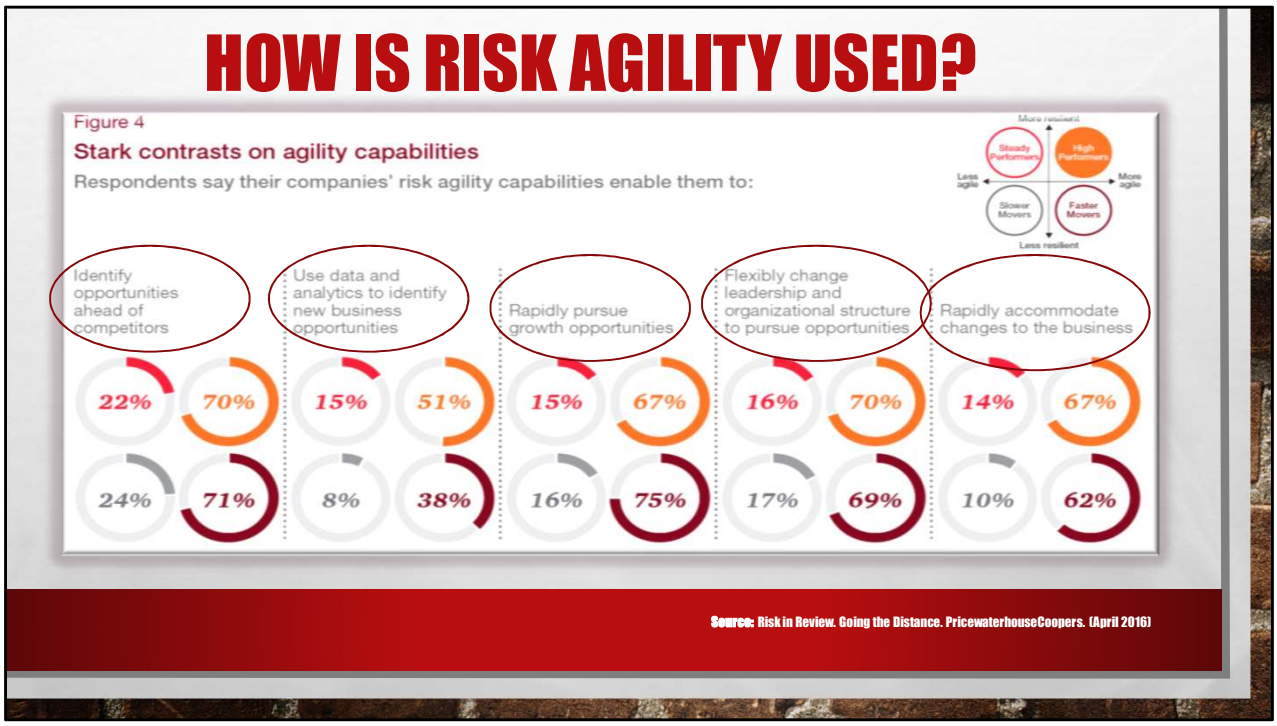

And in terms of how risk agility is used……

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compared with only 33% of CIPS (consumer and industrial products and services) respondents overall.

Another interesting view here is that North America is view as the greatest agility and resilience. I believe that this is soley because it is 1st world. While South America has strong resilience.

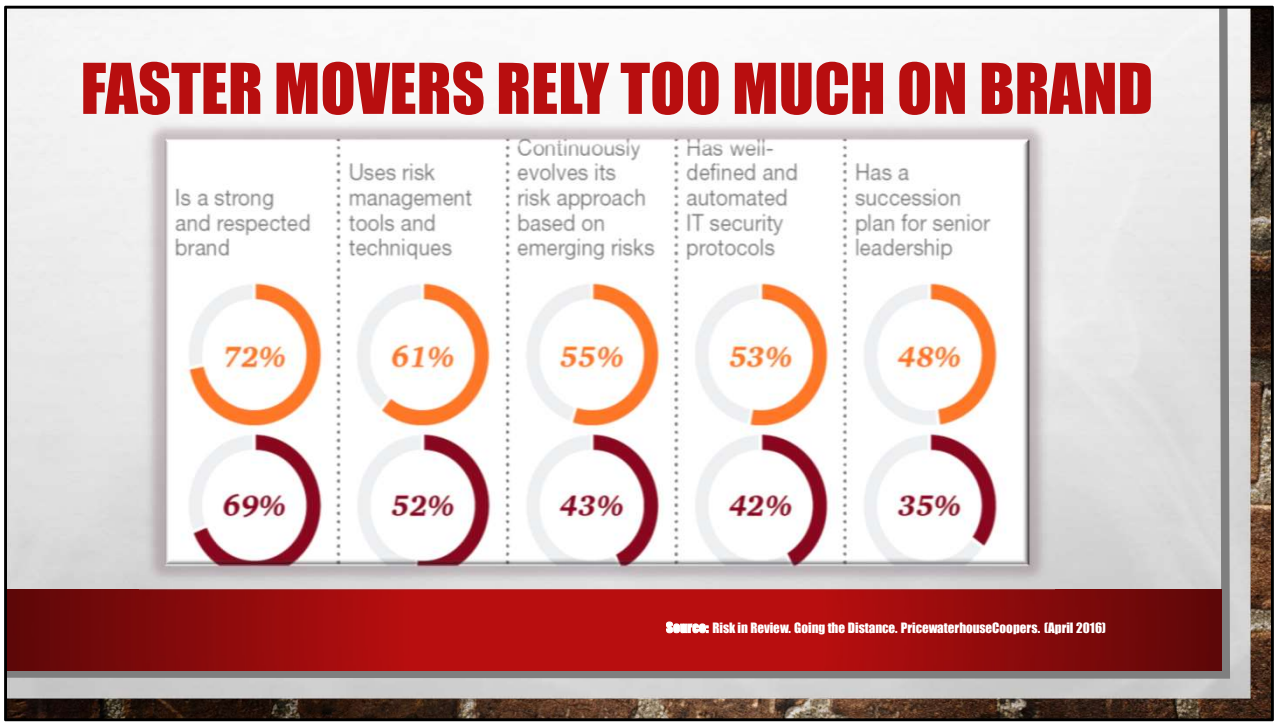
Looking at Africa and the Middle East, their agility and resilience is low.

Asia is second behind North America for resiliency and the 3rd highest for agility. I wonder what this statisitic would look like if the 1st world asia countries are

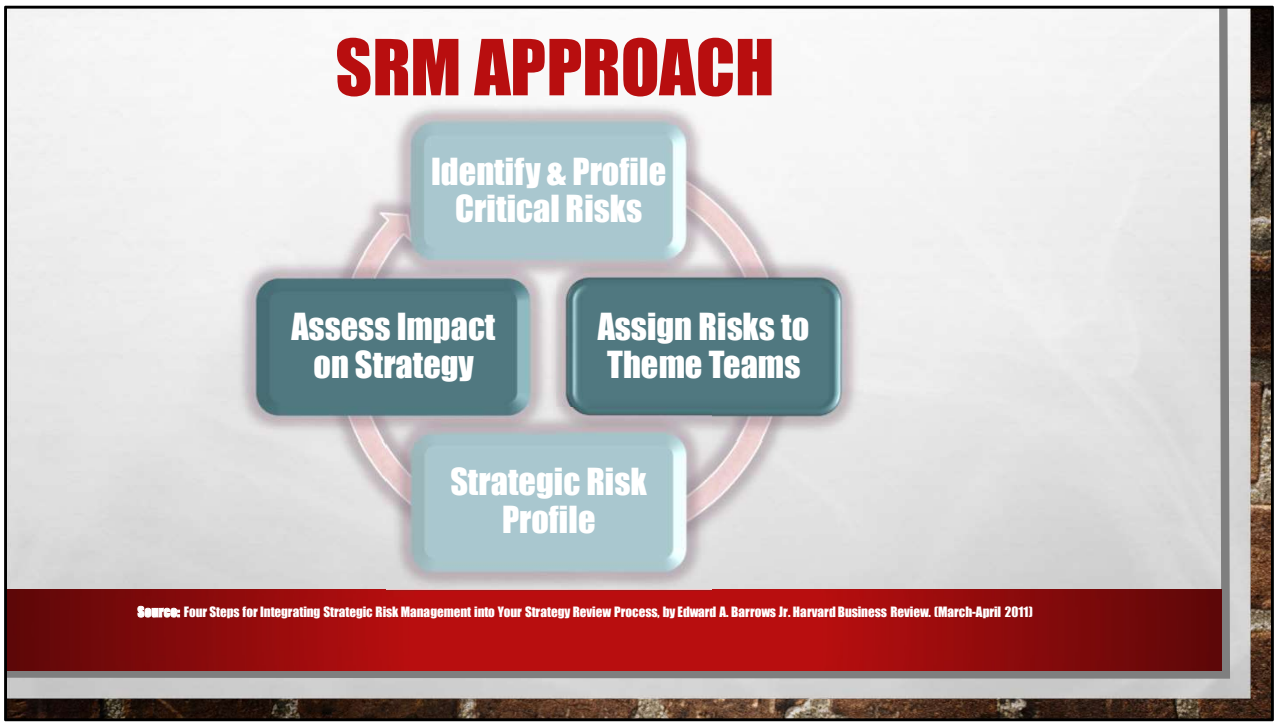
As a group, respondents whose companies are headquartered in North America report
having the greatest risk agility and risk resiliency. They are more likely to say they have proven
records of protecting their core businesses while remaining innovative and agile: 55% compared
with 45% of European respondents and 39% of Asian respondents. North American respondents also
rate their ability to mobilize internal resources as much higher than the ability of

others: 70% say
they are good or excellent in this area. Only 16% of North American respondents, however, say they
have had or plan to have an independent assessment of their companies' risk agility versus 23% in
Middle East/Africa, who say the same. And just 45% of North American respondents say they identify
opportunities ahead of their competitors—as against 61% in South America who make that claim.
Respondents headquartered in Asia rank second highest in risk resiliency (though well below
their North American counterparts) and third in risk agility. They are least likely to say they can
identify opportunities ahead of their competitors or that they understand the velocity of risk. When it
comes to being able to immediately launch business continuity plans following a disruption, however,
respondents in Asia (57%) outpace their peers in Europe (51%), the Middle East/Africa (46%), and
Latin America (43%).
Respondents headquartered in Europe score near the top when it comes to the use of risk
management tools and techniques, with 57% claiming this is characteristic of their organizations—
just behind Asia (58%). European respondents also see their brand leadership as a strength, at 71%
(behind only North America, at 77%). Overall, they rank third highest for risk resiliency but outpace
only the Middle East/Africa on agility.
Respondents headquartered in the Middle East/Africa are more likely than respondents
headquartered in other regions to have established business models with documented risk
management processes (61% vs. just 42% in Latin America and 58% in Europe). These respondents
are also most likely to agree or strongly agree that their companies understand the velocity of risk
(43% vs. only 29% in Asia). Still, on average, companies in this region score lowest on agility and
second lowest on resiliency.
Risk agility significantly outpaces risk resiliency among respondents headquartered in

Latin
America, with 61% saying they are good or excellent at identifying opportunities before their
competitors, compared with only 40% of respondents in Asia and the Middle East/Africa and 48%
in Europe. More than half (52%) of Latin American respondents agree or strongly agree that their
companies encourage process flexibility to improve efficiency, versus just 39% in Europe, Asia, and
the Middle East/Africa.



QUESTION: PROVIDE EXAMPLES OF COMPANIES THAT ARE MORE RESILIENT AND MORE AGILE



Stage 1—Develop the Strategy: This stage includes developing mission, values, Sysand
vision; strategic analysis;
and strategy formulation.
At this stage, a strategic
risk assessment could be
included that could use the
Return Driven Strategy
framework to articulate and
clarify the strategy and the
strategic risk management
framework to identify the
organization's strategic risks.
• **Stage 2—Translate the Strategy**: This stage includes
developing strategy map

a more

effective method is to assign risks to teams—in particular, to theme teams. Theme teams are groups of managers who are responsible for managing the major elements (strategic themes) of an organization's strategy as identified in the architecture of the strategy map.3 Managing strategic risks via theme teams offers three benefits. First, it assigns people with a cross-functional view of the organization to each individual risk. Their collective experience and focus will naturally provide a more rigorous—and more comprehensive—view of the impact of the given risk on the business. Second, managers are intimately familiar with the initiatives and ancillary actions that are under way to drive progress toward achieving strategic objectives. These managerss, strategic themes, objectives, measures, targets, initiatives, and the strategic plan in the form of strategy maps, balanced scorecards, and strategic expenditures.

Here the strategic risk management framework would be used in developing risk-based objectives and performance measures for balanced scorecards and strategy maps. It would also be useful for analyzing risks related to strategic expenditures. You could also consider developing a risk scorecard at this stage.

• **Stage 3—Align the Organization**:

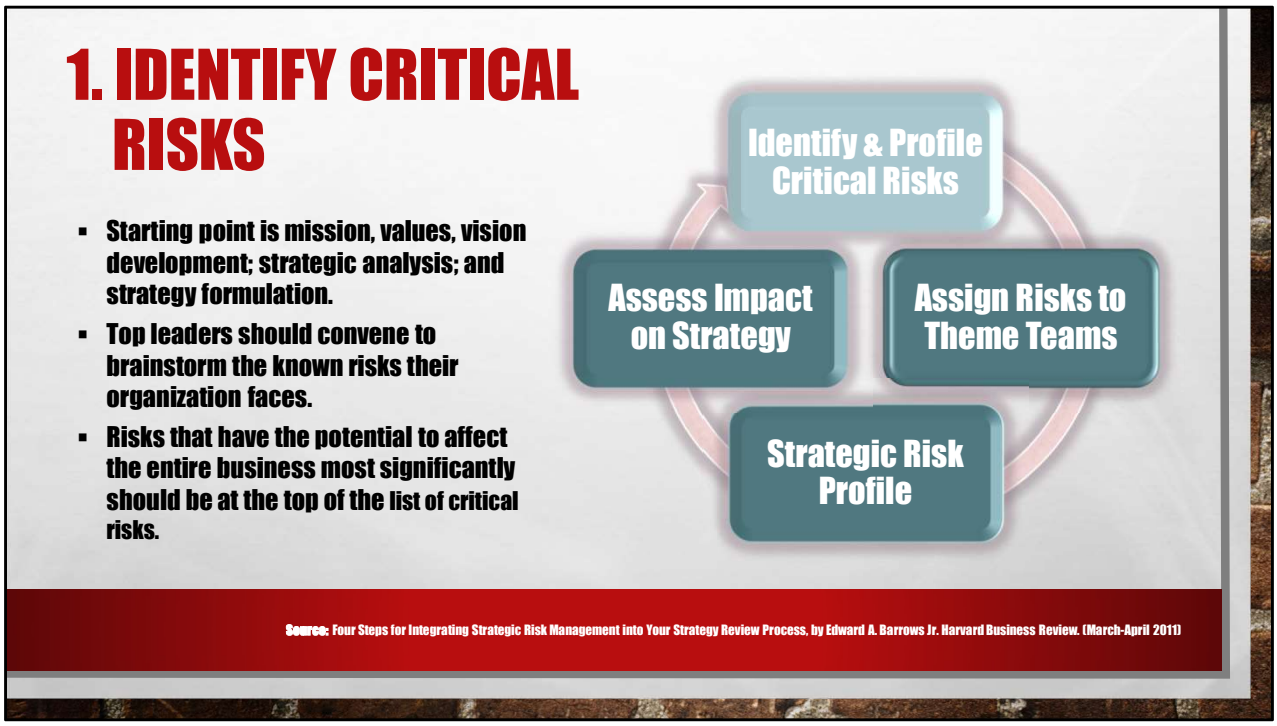
This stage includes
aligning business units, support
units, employees, and
boards of directors.
The Strategic Risk Management
Alignment Guide
and Strategic Framework for
GRC would be useful for
aligning risk and control units
toward more effective and effi
cient risk management and
governance and for linking
this alignment with the strategy
of the organization.

• **Stage 4—Plan Operations**:
This stage includes develop-
ing the operating plan, key
process improvements, sales
planning, resource capacity
planning, and budgeting.
In this stage, the strategic
risk management action plan
can be refl ected in the operating
plan and dashboards,
including risk dashboards.

• **Stage 5—Monitor and
Learn**: This stage includes
strategy reviews and operational
reviews.
Strategic risk reviews
would be part of the ongoing
strategic risk assessment,
which reinforces the
necessary continual, closedloop
approach for effective
strategy risk assessment and
strategy execution.

V**Stage 6—Test and Adapt**:
This stage includes profitability
analysis and emerging
strategies.

Emerging risks can be considered part of the ongoing strategic risk assessment in this stage. The strategic risk assessment can complement and leverage the strategy-execution processes in an organization toward improving risk management and governance.



Stage 1—Develop the Strategy: This stage includes developing mission, values, Sysand
vision; strategic analysis; and strategy formulation. At this stage, a strategic risk assessment could be included that could use the Return Driven Strategy framework to articulate and clarify the strategy and the strategic risk management framework to identify the organization's strategic risks.

• **Stage 2—Translate the Strategy**: This stage includes developing strategy map

a more
effective method is to assign risks to
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strategic objectives. These managerss,
strategic themes, objectives,
measures, targets, initiatives,
and the strategic plan in the
form of strategy maps, balanced
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expenditures.
Here the strategic risk
management framework
would be used in
developing risk-based
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balanced scorecards
and strategy maps. It
would also be useful
for analyzing risks
related to strategic expenditures.
You could
also consider developing a

risk scorecard at this stage.

• **Stage 3—Align the Organization**: This stage includes aligning business units, support units, employees, and boards of directors. The Strategic Risk Management Alignment Guide and Strategic Framework for GRC would be useful for aligning risk and control units toward more effective and effi cient risk management and governance and for linking this alignment with the strategy of the organization.

• **Stage 4—Plan Operations**: This stage includes develop-ing the operating plan, key process improvements, sales planning, resource capacity planning, and budgeting. In this stage, the strategic risk management action plan can be refl ected in the operating plan and dashboards, including risk dashboards.

• **Stage 5—Monitor and Learn**: This stage includes strategy reviews and operational reviews. Strategic risk reviews would be part of the ongoing strategic risk assessment, which reinforces the necessary continual, closedloop approach for effective strategy risk assessment and strategy execution.

V**Stage 6—Test and Adapt**: This stage includes profitability

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Emerging risks can
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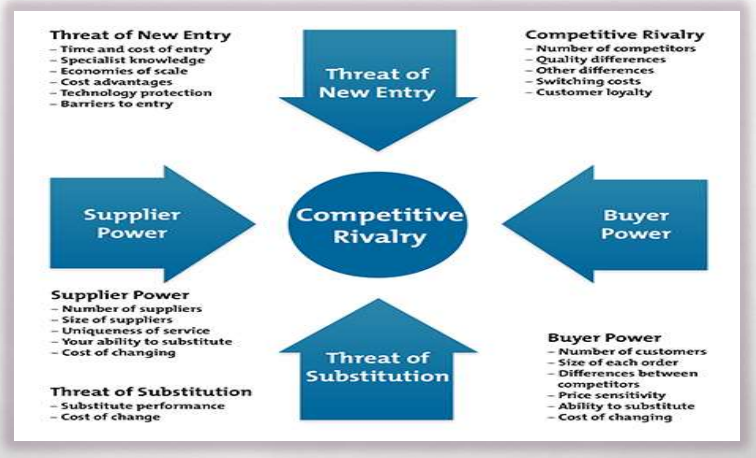
CONSIDER FORCES & DISRUPTORS

- SWOT analysis
- Porters Five Forces (Threats / Competitive Rivalry)



Source: Porters Five Forces Model

Bill Gates: https://www.youtube.com/watch?v=raAkFKm9afg
RPA: https://www.youtube.com/watch?v=xW95yb6J1eU
IBM Watson: https://www.youtube.com/watch?v=bXfTthJ1DF0
Amelia: https://www.youtube.com/watch?v=JVZzHtBCvtc
Blue Rover: https://www.youtube.com/watch?v=Jq-L38nj57I
Deloitte Orbis: https://www.youtube.com/watch?v=JSzko-K7dzo
WinSun 3D Printing: https://www.youtube.com/watch?v=UkQSaM43nNw
Tesla Parking: https://www.youtube.com/watch?v=bn1uzAJk-6o
Tesla Autopilot: https://www.youtube.com/watch?v=C3DbrYx-SN4

STRATEGIC RISK TEMPLATE

STRATEGIC ISSUE NAME: Shift to digitized music — Date: 1/31/05

CURRENT AND FUTURE SITUATION

Critical Data/Information:
The *New York Times* and the *Wall Street Journal* have begun publishing data from behavioral scientists that talk about the shift to portable digital media. Further, websites are emerging that provide for file sharing and downloading. A recent tradeshow showcased new technologies aimed at accelerating the shift to digitized music.

Trends and Extrapolation:
The expectation of decline in the music segment of our business could extend from low single-digit to significant double-digit decreases.

Information Sources:
New York Times
Wall Street Journal
Nielsen

Related Objectives and Initiatives:
Impact the ability to "grow revenue and improve profitability."

IMPACT AND RESPONSE

Potential Impact:
The advent of MP3 players and alternative delivery means have provided a viable alternative to physical distribution of music. It is possible that a rapid decline in music distribution will occur over the coming years that will unfavorably impact our business and, if severe enough, could force us into bankruptcy.

Time to Impact:
Starting now... will accelerate into 2006 and 2007.

Possible Responses:
There are three responses identified at this time:
1) Continue to manage the business as is.
2) Begin the development of a digital distribution organization.
3) Identify a partner to help establish relationships with emerging developers/distributors.

Chosen Response:
Continue to manage the business as is.

USE FOR TETRA CASE

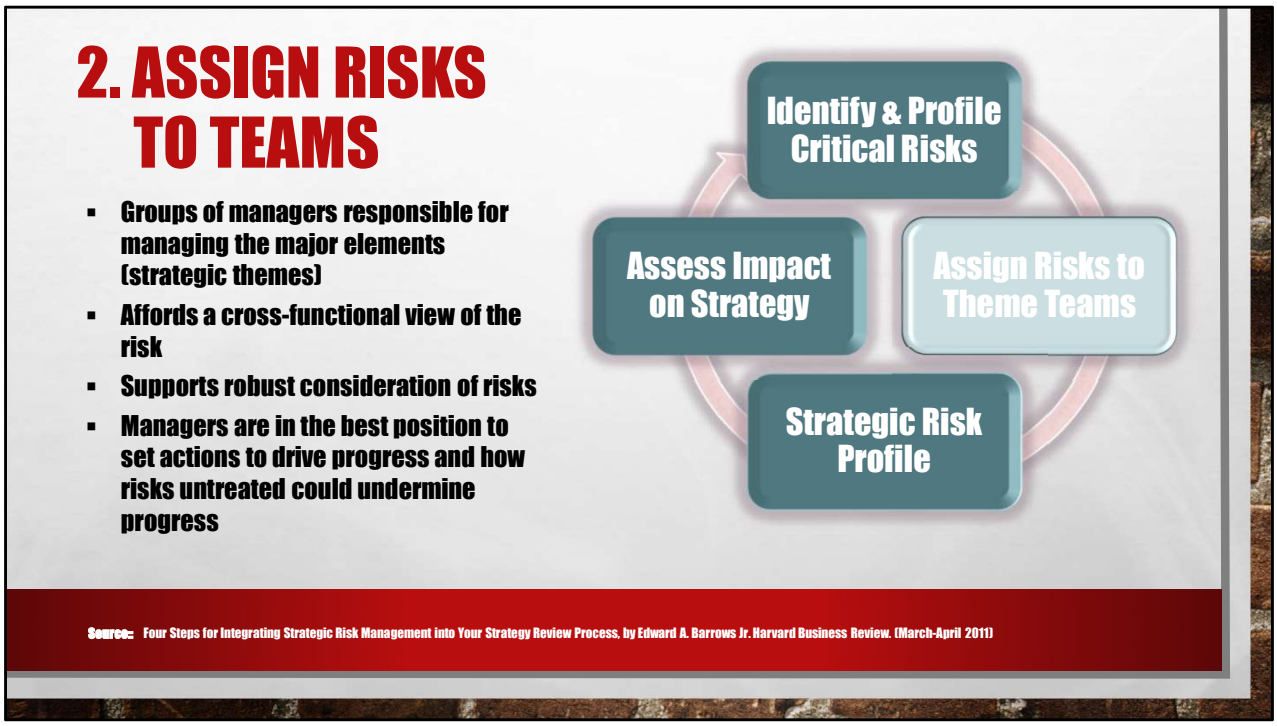
Source: Four Steps for Integrating Strategic Risk Management into Your Strategy Review Process, by Edward A. Barrows Jr. Harvard Business Review. (March-April 2011)

WHEN IDENTIFYING STRATEGIC RISKS….

1. Recognize where the real problem lies
2. Be skeptical of sophisticated risk models
3. Beware of increasing risk for profit
4. Try scenarios
5. Hold pre-mortems
6. Use external comparisons
7. Don't' force growth
8. Pay attention to incentives
9. Build a resilient organization

Source: A Better Way of Managing Major Risks. Philip Bromiley and Devaki Rau. Harvard Business Review. Issue 28. First Quarter 2016

To build a resilient organization, try to keep some resources in reserve. Being too fat is not good, but neither is having no fat. In addition, have systems that acknowledge and adapt to problems rather than hiding them.



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3. UPDATE STRATEGIC RISK PROFILE

- Keep Strategic Risk Templates and critical risk listings updated through periodic updates (monthly, quarterly, etc.)
- Engage Theme Team members in the process

Source:: Four Steps for Integrating Strategic Risk Management into Your Strategy Review Process, by Edward A. Barrows Jr. Harvard Business Review. (March-April 2011)

4. ASSESS THE IMPACT ON STRATEGY

- Scrutinize data demonstrating progress made addressing risks
- Re-assess the impact of critical risks on the strategic themes

Source: Four Steps for Integrating Strategic Risk Management into Your Strategy Review Process, by Edward A. Barrows Jr. Harvard Business Review. (March-April 2011)

STRATEGIC RISK MANAGEMENT TIPS

1. Communicate and share risk information across business units
2. Quantify strategic risks in terms of revenue, earnings, reputation and shareholder value impact
3. Make strategic risk a part of the process for developing strategic plans
4. Monitor risks through the firms performance measurement system
5. Make SRM a continual process

Source: Strategic Risk Management: A Foundation for Improving Enterprise Risk Management and Governance. Mark Frigo and Richard Anderson. The Journal of Corporate Accounting & Finance. March/April 2011.

CASE STUDY

LEGO & TETRA TEC

CASE STUDY: LEGO

1. What are Lego Group's core capabilities that were crucial to its recent turnaround?
2. Using the scenario planning template, chose a secondary uncertainty parameter, and place the opposite extremes on the horizontal axis. Argue why you selected this uncertainty parameter as the most relevant and critical driver.
3. Adopting a "headline news" style, describe and name the four scenarios that result from the interaction of your selected uncertainty parameter with the one already selected by Lego executives ("brand is king" vs. "bricks are just a commodity"). Present scenario to the class.
4. Identify two or three key success factors under each scenario. Is the Lego Group's current "business architecture" (including its core capabilities and organizational structure) adequate under each scenario? What recommendations would you make to enable the company to adapt to the possible future scenarios you identified?
5. Should the Lego group build a factory in Asia within the next 5 – 7 years? Why or why not?

1. problems:: overconfidence in brand selling power, overdiversification and complexity of product offerings, loss in confidence in brick based core products. Response: emphasis on listing to children and parents, focus on large retail chains, focus on most efficient production and distribution value chaing

LEGO's first factory in Asia and the fifth in the world will start operation on Friday in Jiaxing, Zhejiang province, to produce up to 80 percent of all LEGO products sold in Asia, which is growing into one of its largest markets.

The factory is located in the city of Jiaxing, in the middle of the Yangtze River Delta and is approximately 100 kilometers away from Shanghai, where the LEGO Group will have its central distribution center for Asia.

"The operation of the factory allows us to get closer to China, which is one of the fastest growing markets in the world and react for adjustments to offer a better and more efficient service to local consumers," said Richard Wong, general manager of Asia manufacturing at LEGO.
"However, the selling price in China won't be adjusted to be lower for the moment as what we value most is the design and playful experience of our products."
The factory, which started trial operations in late 2015, currently has three major

departments including a molding facility and packing, covering approximately a total construction area of 165,000 square meters. It is expected to be fully operational by the end of 2017. There are 1,200 employees working in the factory.
"We have built a state of the art factory in Jiaxing that adheres to the same global production standards as our factories across the world," said Jorgen Vig Knudstorp, president and CEO of the LEGO Group.

Being the most sustainable plant LEGO has ever built, the factory will have 20,000 solar panels installed on its roof in the coming months and will be put into use by the middle of 2017, reducing its carbon dioxide emissions by more than 4,000 metric tons annually and providing 7 percent of the total electricity being used at the site. For the first time, LEGO has applied LED lighting in the entire factory to save energy.
"We've applied these measures to reduce emissions by another 2.5 percent, and aim to be sustainable with 100 percent renewable energy by 2020," said Tim Brooks, vice-president of Environmental Sustainability & SMC at the LEGO Group.
LEGO Group, which entered the Chinese mainland market in the early 1980s, currently has 37 offices and more than 30 local retailers in China.

CASE STUDY: TETRA TEC

1. What aspect of Tetra's core capabilities failed in the project?
2. What critical risk did Tetra encounter?
3. Prepare a Strategic Risk Template and present how you would propose to address the critical risk.
4. Compare and contrast your Strategic Risk Template to the 11 step risk management process employed by Tetra.

QUESTION 1:
Collusion of employees – lost projects because of 5 staff that put waste in a Resource Conservatory & Recovery Act violating landfill. Cos the company $1.5 million and their reputation. Regulators assumed this had happened else where so they surveyed all their other projects. Root cause was complacency: they wanted to get home to their families on a long weekend after working a 60 hour week. They did this because they didn't understand the regulatory requirements – now Tetra teaches these requirements in the filed as opposed to simply having them included in work plans.

QUESTION 2:
Regulatory non-compliance and reputational damage

STRATEGIC RISK TEMPLATE

CURRENT & FUTURE SITUATION	
Critical Data & Information EPA no longer indemnifying environmental clean up projects Engineers, construction workers and engineers didn't spend enough time in planning stages	**Potential Impact** Multi-million dollar exposure
Trends & Extrapolations Losses could jeopardize the companies viability	**Possible Response** 1. TIP process 2. Lower risk appetite to allow for more bids 3. Other