Integrated Risk Management Solutions, LLC

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Dear Colleague;

The Power of Governance!

What is this thing called Governance? With all the changes and challenges surrounding your business, Governance may sound like a bureaucratic nuisance. This quarterly advisory is dedicated to the value of Governance to effectively manage your organizational risks. We will share expert definitions of Governance in government and corporations and weave a tapestry of value to your business and Risk Management.

Business Dictionary's definition is: Establishment of policies, and continuous monitoring of their proper implementation, by the members of the governing body of an organization. It includes the mechanisms required to balance the powers of the members and their primary duty of enhancing the prosperity and viability of the organization.

Investopedia defines: Corporate governance is the system of rules, practices and processes by which a firm is directed and controlled. Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government and the community. Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

All these words and phrases make Governance sound complicated. In our world Governance simply is the collective knowledge and wisdom of several leaders who oversee the major operational, financial, marketing, human talent and legal imperatives for an organization, all focused on the opportunities and risks faced in each business cycle (hour, day, month, quarter or annual). Governance can occur at the Board level, C-suite, Division or operating unit. It captures the simple thought that "several heads are always better than one"!

Risk Governance brings regular and rhythmic deliberations by a team responsible for major segments of the organization regarding the opportunities and risks presented by the pursuit of goals and success. Most effective is when this Governance team owns the organization's risks and carries the responsibility and accountability to anticipate, prioritize and mitigate situations that could impair progress toward successful outcomes.

This process isn't a one day or week exercise. It is a process that lives constantly with the Risk Governance team! The outcome is an environment of anticipation, planning and preparedness for anything that may occur from operations or external situations outside immediate control. It drives acute awareness and nimble response to emerging circumstances. The process is shared among the team members in a manner of collaborative support that minimizes the friction of organizational silos.

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Key words in the definitions presented earlier are "prosperity and viability", and "every sphere of management". Effective Governance of opportunities and risk improves the potential for financial success and long-term sustainable operations (remember you don't need to be perfect – just better than the competitor). Equally important is the engagement of every part of the organization. This is where the natural friction of silos is mitigated.

The ideal is trust, collaboration and problem resolution.

Many organizations compare Governance with Compliance/Regulations. Some see that Governance is a requirement for control. Governance for purposes of control minimizes the value creation from collaborative anticipation of opportunities, Recognition of risk and preparedness for Response and Recovery (faster than anyone else).

The Most Impactful Risk Management Originates from Governance.

Punctuating this practice is the evolution of your Information Systems. The technology has been designed and placed into service over time; enlisting the best available devices, connections, storage and processing. Since your systems are a collection of resources deployed during the past 10-20 years, how would humans have any chance of understanding and protecting the precious data collected and processed? The best chance you have is regularly bringing together the best minds to examine operations, threats and responses to incidents constantly attacking an out-of-date set of systems. Nothing provides certainty better than rhythmic monitoring, assessment and response.

Facebook was designed in the early 2000's to provide users a platform to share personal information; with all good intents! We have now experienced creative users who manipulated the platform for uses that were not anticipated (in the 2015-2018 timeframe). Facebook now will combine Artificial Intelligence with human Narrators to evaluate content 24X7. These costly steps deploy intensive and rhythmic monitoring combined with Governance-based oversight that will multiply Facebook's management of risks associated with hacks, data manipulation, theft, misuse and ransom.

With the backdrop of banks experiencing 3 hack attempts per second, cyber-attacks up 20% from 2017, supply chain disruptions at an all-time high, Fraud producing $7 billion in losses in 2017 the most effective counter measure is proactive Risk Management Governance.

Integrated Risk Management Solutions provides Advisory services to help strengthen your business. I look forward to your thoughts and questions – please contact us.

Manage Your Risks Well,

Attachment

Risk Management is Every Team Member's Business

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Managing Risk = Cash Flow

Typical returns are 4:1 ROI and significant cash flow improvement

Risk is anything that impacts cash flow! Successful companies manage risk more effectively than competitors. By practicing a "Risk Awareness" culture that engages every level of the business in prevention-centric behavior, cash flow is improved.

Key Risk Management Facts:

- Companies spend between 7 - 10% of revenue on risk-related costs, including:

- Safety	- Security	- Information Security	- Health & Wellness
- Absence*	- Theft	- Fraud Prevention	- Revenue Inefficiency
- Audit	- Compliance	- Investigations	- Settlements
- Claims	- Insurance	- Crisis Management	- Emergency Response

* Incidental absence can increase the costs of employee health and wellness programs by 2X.

- Risk costs are incurred in multiple corporate silos hiding the "Total Cost of Risk."
- 75% of company information system risks come from employees and trusted vendors.
- FM Global, a world-wide property insurance and engineering firm, recently estimated that company earnings volatility can be reduced by 50% through effective Risk Management prevention and preparedness programs.
- Companies that manage risks effectively will receive the best insurance prices and maximize the option to *self-insure*.
- Enterprise-wide Risk Management is a complete vision of company risk. A strong Risk Management culture helps a company respond well to unforeseeable events.
- Documented and tested Business Interruption/Scenario Plans sustain key operations during an emergency and improve company survival by 70%.
- Uncertainty and financial pressure renew the need to manage risk. These pressures have always been present, but the magnitude and visibility is at an all-time high.
- Third party vendor transactions often result in 10% or greater errors and inaccurate billing.
- Sarbanes-Oxley, Dodd-Frank and compliance audits only test transactional controls – operational controls are "the source" of risk – **Operations Assurance is the key!**
- Regular Operations Assurance reviews can improve revenue efficiency by up to 20%.
- Synergy from a holistic focus on risk, cost/revenue efficiency, loss reduction, underperforming vendors and fraud produce impactful cash flow improvement.

2018 Global Risks Defined by:

World Economic Forum

- Extreme weather events
- Natural disasters
- Failure of climate-change mitigation & adaptation
- Water crisis
- Cyber attacks
- Food crisis
- Bio-diversity – loss of ecosystem
- Large scale involuntary migration
- Man-made environment disasters
- Interstate conflict

Executive Opinion Survey*

- Un/under employment
- Fiscal crisis
- Failure of national governance
- Energy stock prices
- Profound social instability
- Failure of financial mechanisms
- Failure of critical infrastructures
- Cyber attacks
- Interstate conflict
- Terrorist attacks

* WEO Survey 2018

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