

Assignment 5

Modeling an Enterprise-Wide Risk Management Framework and Process

Educational Objective (EO)

Describe the purpose and component parts of an enterprise-wide risk management framework.

Instructions

Activity 1 — Describing the Purpose and Component Parts of an Enterprise-Wide Risk Management Framework

Individual Activity Followed by Large Group Discussion

Ask participants to complete the questions in **Activity 1— Describing the Purpose and Component Parts of an Enterprise-Wide Risk Management Framework**.

Alternatively, this activity could be assigned as pre-work. If used as an assignment, have participants come to class prepared to share their answers.

Debrief:

Reconvene the large group and ask for volunteers to share their answers. When all questions have been answered, ask participants to develop a statement that senior management would use to reinforce the commitment of a risk management framework that the organization could use in its risk management policy. Record their statements on a flipchart or whiteboard.

Activity 1 — Describing the Purpose and Component Parts of an Enterprise-Wide Risk Management Framework

Questions	Answers
1. What is the purpose of a risk management framework?	
2. What is the principle that underlies a risk management framework?	
3. List the four components of the framework model.	
4. List the five steps of the process model.	
5. Why is it essential to have sincere commitment and support from senior management for risk management?	
6. What techniques can senior management use to establish accountability for risk management?	
7. What organizational objectives levels should risk management objectives be aligned?	
8. What are the typical resources that are allocated to effectively implement a risk management process throughout the organization?	
9. List the key messages of risk management communication.	
10. Describe the key reports of a risk management framework.	

Answers to Activity 1 — Describing the Purpose and Component Parts of an Enterprise-Wide Risk Management Framework

Questions	Answers
1. What is the purpose of a risk management framework?	The fundamental purpose of a risk management framework is to integrate risk management throughout the organization. The framework is intended to support a risk management process.
2. What is the principle that underlies a risk management framework?	Risk management should add value to the organization. It should not only reduce negative risk but also contribute to profit, reputation, and health and safety.
3. List the four components of the framework model.	<ul style="list-style-type: none"> • Lead and establish accountability • Align and integrate • Allocate resources • Communicate and report
4. List the five steps of the process model.	<ul style="list-style-type: none"> • Scan environment • Identify risks • Analyze risks • Treat risks • Monitor and assure
5. Why is it essential to have sincere commitment and support from senior management for risk management?	The tone for major projects and initiatives is set at the top of the organization, and a tone of sincere commitment to and support for risk management is essential for the process to be successful.
6. What techniques can senior management use to establish accountability for risk management?	<ul style="list-style-type: none"> • Identify risk owners and their roles in the organization • Establish key performance indicators (KPI) • Establish key risk indicators (KRI) and use them to evaluate performance • Develop risk criteria to evaluate the significance of risks
7. What organizational objectives levels should risk management objectives be aligned?	Both the strategic and operational levels of the organization.
8. What are the typical resources that are allocated to effectively implement a risk management process throughout the organization?	Typical resource needs include training and adaptation of systems.

Questions	Answers
<p>9. List the key messages of risk management communication.</p>	<ul style="list-style-type: none"> • Effectively communicate the purpose and importance of the risk management process to the entire organization • Communication across organizational functions is also necessary for the design and implementation of an effective risk management process. • After the process is integrated, proficient communication of results must take place to provide the basis for ongoing monitoring and improvement.
<p>10. Describe the key reports of a risk management framework.</p>	<ul style="list-style-type: none"> • Information about risks and the results of risk management to appropriate stakeholders. • Senior management should receive executive summary reports at regular intervals. • More detailed reports should be prepared and reviewed by managers regarding risks in their areas of responsibility. • For the risk management process to be optimally effective, information about emerging risks should be included in risk reports.

Designing and Implementing an Enterprise-Wide Risk Management Framework and Process

Educational Objective (EO)

Explain how to design and implement an enterprise-wide risk management framework and process.

Instructions

Activity 1—Designing an Enterprise-Wide Risk Management Framework and Process

Small Group Activity Followed by Large Group

Discussion

Divide participants into small groups and ask the groups to read **Case Study—Blithe University**.

Provide each group with a flipchart page. Ask each group to write down the process that Blithe University should follow in designing an enterprise-wide risk management framework. Allow 2-3 minutes for the groups to write their description.

When all groups have completed their summary, have each group post their flipchart pages at the front of the room. Ask one group to explain their answer to the other groups. Have the participants provide feedback to the group on their flipchart answers. Then ask another group to explain their answer and repeat the process until each group has had a chance to summarize their approach.

Debrief:

Review the group answers.

Case Study—Blithe University

Blithe University is a mid-sized liberal arts university in the Midwest. Although founded in 1901, the university operated as a small local teachers college until the early 2000s when it implemented an ambitious growth plan after receiving a sizeable donation from a former student. In the last ten years, it has grown from 3,000 students to 12,000 students, built five new academic buildings, five new dormitories, and a collegiate sports center.

The growth has had both positive and negative consequences. Although there are more students and therefore more tuition income, the university infrastructure has not kept pace. The operating problems include these:

- Computer systems are antiquated
- The administration lacks experience with the scale of operations
- Much of the faculty is either inexperienced or they are part-timers with no long-term allegiance to the university
- Internal and external controls over the accounting and finance systems are inadequate for the current level of operations

Recently, the university experienced a cheating scandal that made the national news. A student posted a video on-line that depicted obvious and rampant cheating in a final exam, and the video went viral. There was an immediate outcry from parents, many of whom threatened to withdraw their children. Alumni giving immediately dried up right in the middle of the university's first major fund-raising campaign in more than twenty years. Perhaps most significantly, the university's accrediting body has placed the university on probation. Loss of accreditation threatens the university's survival, as it would then become ineligible for federal student aid.

A second incident involving the football team ensued shortly thereafter. Two players confessed to being paid under the table by an unnamed alumnus to play sports at Blithe. The fact that the alumnus was not named created even more suspicion and mistrust. Right after that information became public; there was a mysterious fire at the athletic complex, which the fire department ruled as arson. The fire caused \$750,000 worth of damage, much of which was uninsured because of a lapse in the university's fire insurance policy caused by nonpayment of premiums.

The president of the university has been replaced, and the first thing that the new president has done is to hire a risk management professional to help guide the university. The risk management professional has been tasked with designing and implementing an enterprise-wide risk management framework and process that can address the university's various risk exposures.

Comparing the Enterprise-Wide Risk Management Process With the Traditional Risk Management Process

Educational Objective (EO)

Compare the enterprise-wide risk management process with the traditional risk management process.

Instructions

Activity 1—Comparing Risk Management Processes

Group Activity Followed by Large Group Discussion

Divide participants into small groups. Provide each group with a copy of the worksheet in **Activity 1—Comparing Risk Management Processes**. Ask the groups to write down as similarities and differences in the two risk management approaches as they can in 2-3 minutes.

Post two flipchart pages at the front of the class. Mark one flipchart page as **SIMILARITIES** and one as **DIFFERENCES**. Ask the groups to begin naming similarities and differences. Do not repeat examples, but keep writing down the similarities and differences until the group lists are exhausted.

Debrief:

Review the answers with the groups. You may consider asking the participants to comment on the following topics:

- What are the root causes of this evolution in the approach to risk and risk management?
- What changes can you foresee for the future?
- What type of education or training will be most beneficial for the risk management professional of 2020?

Activity 1—Comparing Risk Management Processes

Describe similarities and differences between the steps in the traditional risk management process and the enterprise-wide risk management process.

Steps in the Traditional Risk Management Process	Steps in the Enterprise-Wide Risk Management Process
Identify Loss Exposures	Scan Environment
Analyze Loss Exposures	Identify Risks

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Examine the Feasibility of Risk Management Techniques	Analyze Risks
Select the Appropriate Risk Management Techniques	Treat Risks
Implement the Selected Risk Management Techniques	

Monitor the Results and Revise the Risk Management Program	Monitor and Assure

Applying the Enterprise-Wide Risk Management Framework and Process

Educational Objective (EO)

Apply the enterprise-wide risk management framework and process to an organization's hazard risk.

Instructions

Activity 1 — Case Study: Applying the Enterprise-Wide Risk Management Framework and Process to an Organization

Group Activity Followed by Large Group Discussion

Divide participants into two groups. Ask the participants to read the scenario and complete the questions in **Activity 1— Case Study: Applying the Enterprise-Wide Risk Management Framework and Process to an Organization**.

Debrief:

Reconvene the large group. Ask one group to present their list of hazard risks arising from internal causes and discuss with the class. Ask the second group to share their risk treatments for the second question and discuss with the class.

Activity 1 — Case Study: Applying the Enterprise-Wide Risk Management Framework and Process to an Organization

Sol-Ar is a growing organization that installs solar panels. It is based in a southwestern city in the United States, and its assembly plant employs sixty people. It has six trucks that are used for installation and service, with fifteen technicians and twenty-five assistant technicians employed in the installation and service division.

As Sol-Ar has grown over its five years of existence, its losses have also grown. Employee injuries have increased more than sales. The most frequent and severe injuries are back strains at the plant, but Sol-Ar had one serious injury to a technician who fell from a roof during the installation of a panel. Vehicle accidents have increased in frequency but not severity. One serious liability claim occurred related to a solar panel that fell during installation, injuring a bystander, and several minor liability claims occurred related to property damage from leakage around the panel installation.

Sol-Ar recently decided to hire a risk manager to assist the chief financial officer (CFO) with risk management. Janet has just started in that role. How should she apply the enterprise-wide risk management process to Sol-Ar's hazard risks?

Questions

1. Identify Sol-Ar's key hazard risks arising from internal causes, and categorize them according to high or low potential impact and high or low potential likelihood.

Questions

2. For each of the identified risks, determine whether Janet should recommend risk treatment and, if so, which treatment.

Answers to Activity 1 — Case Study: Applying the Enterprise-Wide Risk Management Framework and Process to an Organization

Questions

1. Identify Sol-Ar’s key hazard risks arising from internal causes, and categorize them according to high or low potential impact and high or low potential likelihood.

These are Sol-Ar’s key hazard risks arising from internal causes:

- Risk of employee injury at the plant—high likelihood and high impact
- Risk of installation technician injury—low likelihood and high impact
- Vehicle accidents—high likelihood and high impact
- Technician injury related to installation of panels—low likelihood and high impact
- Property damage related to installation of panels—high likelihood and low impact

2. For each of the identified risks, determine whether Janet should recommend risk treatment and, if so, which treatment.

These are the recommended risk treatments for Sol-Ar’s hazard risks:

- Risk of employee injury at the plant—This risk, with high likelihood and high impact, should be treated. A combination of changing the likelihood, changing the impact, and transferring the risk should be used. Janet should analyze what is causing the frequent back strains and explore methods to reduce their likelihood. She should examine claim handling and explore options to reduce the impact of the injuries that do occur. Workers compensation insurance should be used to transfer a portion of this risk.
- Risk of installation technician injury—This risk, with low likelihood and high impact, should be transferred. Because the frequency is low, this risk does not require options to change the likelihood or impact at this time. Workers compensation insurance is usually required and is appropriate to transfer a portion of the risk of a serious injury.
- Vehicle accidents—This risk should be treated by changing the likelihood and impact and transferring a portion of the risk. Although severity has not increased, frequency has, and the potential exists for an accident with serious impact. Janet should explore options to reduce frequency, such as hiring technicians with good driving records and conducting driver-safety training. She should also explore methods to reduce potential impact, such as determining whether technicians are using seat belts. A portion of the vehicle liability risk should be transferred.
- Technician injury related to installation of panels—This risk should be treated by changing the likelihood and transferring a portion of the risk. Although only one serious injury has occurred, the impact of this type of injury is high. Janet should review installation and material-handling procedures to identify options to reduce the likelihood of this type of risk. A portion of this risk should be transferred through liability insurance.
- Property damage related to installation of panels—This risk should be treated. As with the risk of injury from panel installation, Janet should review the installation techniques and identify options to reduce the likelihood of this risk. Sol-Ar may wish to retain a significant portion of this risk, but some of it should be transferred because of the risk of serious property damage.