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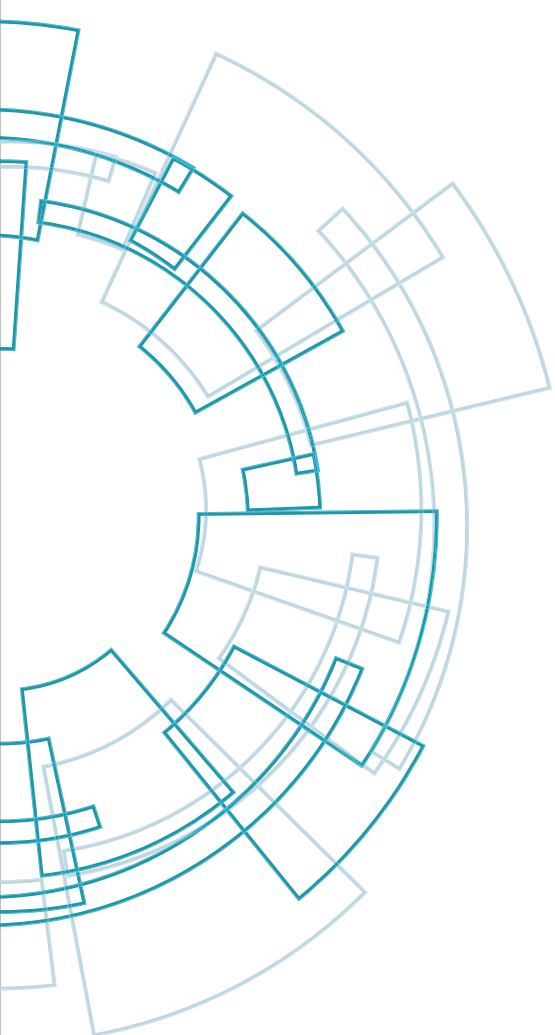
**Reimagining the  
Risk Intelligent Enterprise**







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# Becoming a Risk Intelligent Enterprise

As innovation, technology, and regulation evolve, the risk landscape also evolves, continually disrupting strategies, business models, markets, and customer behavior. Most senior leaders realize that this dynamic landscape requires new strategies for continued success. Yet despite that realization, few organizations are taking a proactive enough approach to risk.

When organizations do take a more proactive approach to risk, leaders often find themselves better positioned to navigate this disruptive environment. Moreover, they discover new opportunities to create value for stakeholders, boost performance, and grow their businesses.

## How?

By adopting practices of the Risk Intelligent Enterprise. The Risk Intelligent Enterprise views risk management not only as loss prevention but as value creation. It acknowledges that risk management must evolve as risks evolve, and traditional enterprise risk management is not equal to the demands of today's disruptive environment. The Risk Intelligent Enterprise pursues the opportunities that risk presents while protecting existing assets. It creates strategic flexibility while maintaining operational discipline. It increases senior executives' confidence in their decisions while providing assurance to the board that risks have been addressed.

For most organizations, this represents a departure from how risk has been managed in the past. Despite dedicating tremendous resources to risk management over the last 10 years, many leadership teams still lack a clear picture of the risks to their organizations and reliable ways of addressing them. Even fewer organizations have a process for allocating resources in ways that leverage risk to enhance key drivers of value while neutralizing the forces that can undermine those drivers.

Addressing these matters is, admittedly, challenging. But it can be done by developing a clear vision for risk management and taking practical steps to realize that vision.

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# An evolving risk landscape demands a proactive approach to risk

## HOW THE BUSINESS EXPERIENCES RISK

While senior executives and board members need to understand the risks to and from the strategy, as well as threats that could destroy existing value, the business experiences risk in three ways:

1

**Risks related to operations**, which occur in the day-to-day activities that people engage in to create value for customers and other stakeholders.

2

**Risks related to change**, which can derail transformation programs or major initiatives, such as integrating a new acquisition or IT system, changing the business model, or pursuing a new market.

3

**Risks related to unexpected or high-impact events**, such as crises arising from natural or manmade disasters or disruptions due to long-term trends that reach an inflection point.

To address these threats, management should develop and deploy an array of integrated tools and methods for identifying and managing these risks at the appropriate levels.

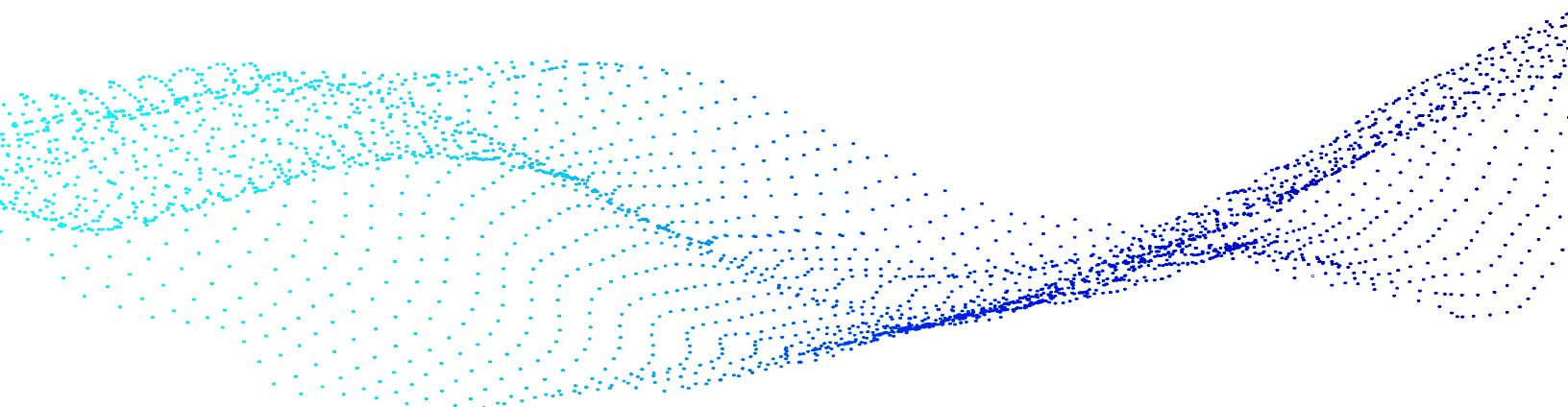
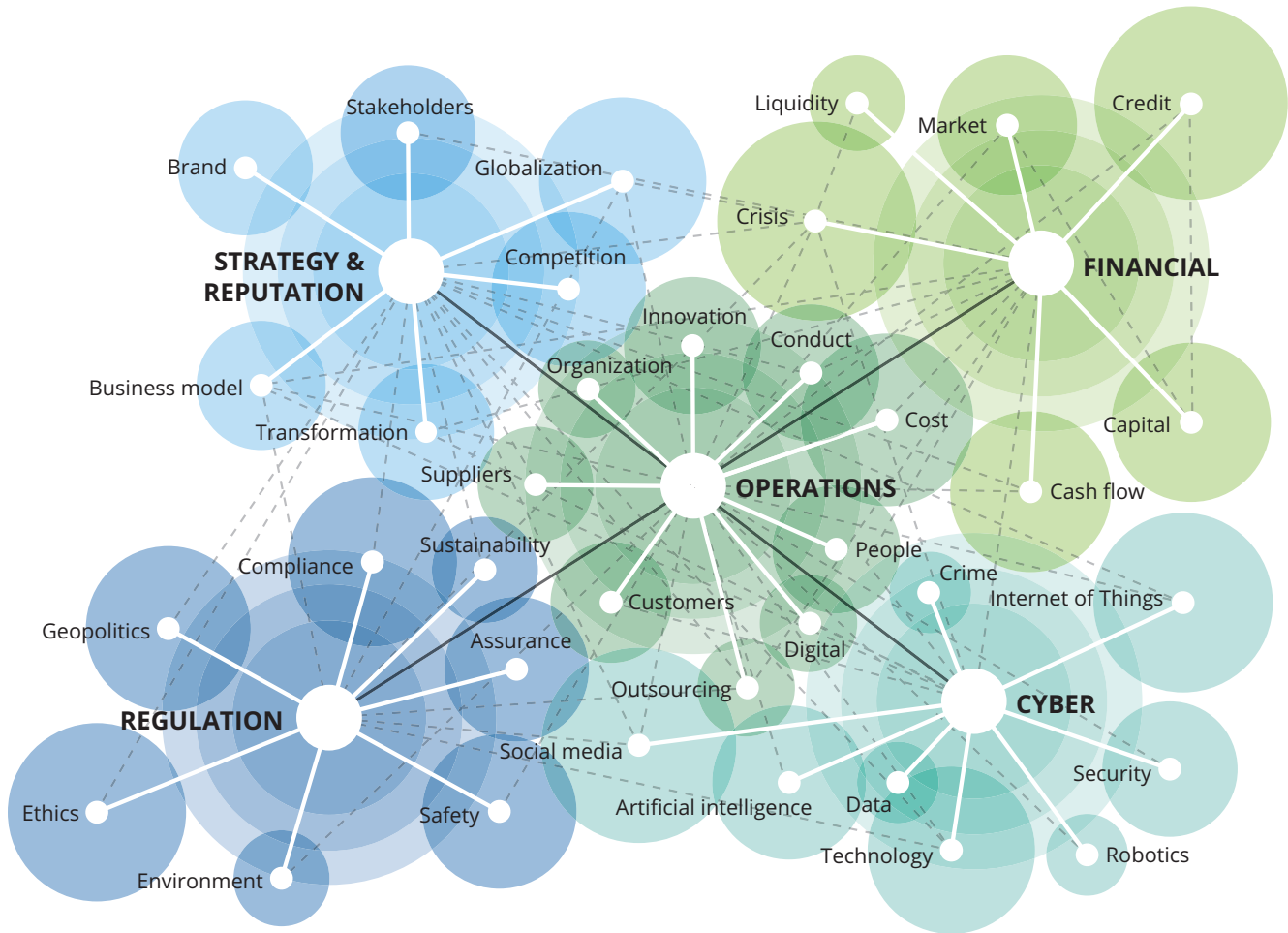
Risks are now more dynamic, ubiquitous, and interrelated, and potentially more devastating than ever before. Additionally, evolving ecosystems and relationships among risks often present threats that have not been experienced before and which traditional risk management is not equipped to address (see Figure 1).

- Risks to strategy and reputation can destroy value built over decades in a matter of days.
- Financial and capital allocation decisions must now be made faster but with closer scrutiny and enhanced capabilities for navigating evolving risks.
- Regulatory changes create new opportunities as well as new compliance costs and operating burdens.
- The cyber threat ecosystem and digitalization create new risks with every new opportunity, and new opportunities with every new risk.
- Management must proactively identify and address operational risks that can undermine the organization's ability to execute strategy and achieve growth and performance goals.

It's natural for management to focus narrowly on the risk-of-the-day as heralded by the media or regulators, or on the most pressing current risk to the organization. Yet that narrow focus can obscure other risks and skew investments in risk management as well as responses to risks.

Senior leaders need a panoramic view of risk—an integrated, ecosystem-wide perspective that can lead to an understanding of the full risk landscape and its potential impact on the organization.

Figure 1. The evolving risk landscape



# Inside a Risk Intelligent Enterprise

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A Risk Intelligent Enterprise accelerates the attainment of strategic goals, drives resilience, and delivers enhanced financial results.  
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Protecting value is table stakes. A Risk Intelligent Enterprise accelerates the attainment of strategic goals, drives resilience, and delivers enhanced financial results. Success can be measured in terms of accelerated growth and exceptional bottom-line performance.

## **How?**

By developing an integrated system that clearly ties the risk strategy to corporate strategy and delivers actionable risk intelligence to the people who need it, when they need it, to make and implement decisions. A Risk Intelligent Enterprise is insight-driven and action-oriented. It systematically aligns people, process, tools, technologies, and governance into a cohesive system and prioritizes and allocates scarce resources to the highest return opportunities.



## The Risk Intelligent Enterprise stands on three foundational elements:

1

### RISK MANAGEMENT SYSTEM

A technology-enabled platform that combines human expertise with risk data and analytics to generate risk intelligence. This overarching risk management system encompasses the framework, people, and tools that collate risk information in a structured and consistent manner. This system integrates risk-data sources to enable consistent measurement of enterprise-wide risks, to provide timely intelligence to the business to inform decisions and actions.

2

### INTEGRATED ASSURANCE PROGRAM

An integrated assurance framework, methodology, and system aligns risk-reporting and assurance activities across all three lines of defense to enhance risk management effectiveness.

Well-designed integrated assurance programs can reduce assurance costs and burdens on the business, while providing higher-quality assurance and enhancing leaders' line of sight into risk management activities.

3

### EFFECTIVE GOVERNANCE

A governance framework consists of structures that enable management to execute the preferred strategy within commercial and regulatory boundaries and improve the probability of achieving strategic and financial objectives. It also enables the board to provide informed risk oversight and ensure that the structures in place are aligned with strategy, culture, and risk appetite.

## The Risk Intelligent Enterprise aims to achieve and sustain:



**Operational discipline and culture** that drives risk management into day-to-day business activities to power performance and achieve strategic goals.



**Successful delivery of new initiatives** by employing explicit project risk management methods and tools to enable rapid pivots to new opportunities and efficient adoption of new practices.



**Business resilience and value preservation** through crisis readiness and the ability to navigate high-impact events.

# Operationalizing risk intelligence: Turning concepts into practice

Operationalizing risk intelligence calls for tools and technologies that deliver timely risk information, facilitate risk-informed decision making, and increase confidence in key decisions—all with the goal of optimizing value at a given risk level. We expect technological innovation to continue to revolutionize and transform risk management.

Here is a small sampling of these “operationalizing enablers”:

## Get it together: Align risk governance with strategic and financial goals



### CHALLENGE

Most organizations still view risk management primarily from a value-protection and compliance-focused perspective. As a result, risk management remains siloed, focused on isolated risks, and disconnected from strategy. Even most boards—the seat of risk governance and oversight—view risk in outdated ways.



### APPROACH

Sound risk governance aligns risk management with organizational strategy and promotes an integrated approach to risk management and assurance. It establishes a taxonomy of risk—a common language and understanding of risk—in the enterprise and an explicit risk appetite, target risk profile, and risk tolerances. It drives risk management into all levels of the business to clarify the role each individual plays in managing risk.



### BENEFITS

Robust governance drives a coordinated and consistent approach to risk management across the organization and gives leaders better lines of sight into risks and opportunities. It helps to establish a risk-aware culture which encourages desired employee behaviors and promotes intelligent risk-taking. Integrating risk with strategy improves the resilience of strategies, strengthens confidence in decisions, and increases the probability of success. When strong governance underpins the organization’s risk posture, the board, executive team, analysts, and investors can have greater confidence in the organization’s ability to achieve growth and performance goals while navigating the evolving risk landscape.

## Peek into the future: Leverage technology to sense risk



### CHALLENGE

Economic crises, market movements, regulatory changes, social media backlash, and new technologies can present major risks in our interconnected world. While typically “unforeseen,” in hindsight the signs were there and the risks (if not the events) could have potentially been anticipated.



### APPROACH

Risk sensing platforms scan the external landscape for early signs of emerging risks. By combining human insight with data mining and cognitive technologies, risk sensing synthesizes and analyzes massive volumes of online and social media information on geopolitical, economic, regulatory, operational, and financial events to deliver predictive intelligence on relevant emerging issues worldwide.



### BENEFITS

Risk sensing enables the enterprise to identify trends, anticipate risks, and seize opportunities based on the best information available. It supports strategic decision making, provides outside-in views of risks, and positions the organization for first- or second-mover strategies or preemptive tactics. It also assists in transforming emerging risks into opportunities.

## Practice makes perfect: Scenario planning and war-gaming



### CHALLENGE

Strategic risks can undermine the organization’s drivers of value and threaten its competitive position and ability to achieve goals and sustain performance. These disruptive risks create the need for rapid response and, potentially, rapid evolution.



### APPROACH

Scenario planning gauges the impact of social, political, technological, and other trends on the organization. It positions management to respond by adjusting strategies, capabilities, and risk management options. War-gaming enables the enterprise to rehearse, test, refine, and adjust strategies and enhance decision making amid uncertainty, and to consider second- and third-order effects of decisions.



### BENEFITS

Scenario planning and war-gaming exercises are designed to enhance risk intelligence by broadening management’s view not only of risks and its impacts, but also of the ways in which the enterprise experiences risks. This positions management to broaden the organization’s choice-set of responses while better understanding the potential knock-on effects of specific responses.



## Measure it: Portfolio optimization



### CHALLENGE

Most companies endeavor to allocate capital to the optimal combination of projects to enhance enterprise value. To achieve long-term value, management should allocate capital effectively amid ongoing disruption. Meanwhile, the risks of an investment strategy can be easily overlooked in hot pursuit of high returns, new technologies, new markets, or integration opportunities. Investment decisions are further complicated by portfolio considerations.



### APPROACH

Enhancing capital efficiency calls for a mix of quantitative and qualitative techniques, and for integrating risk into investment decisions. It also calls for recognizing business constraints and timing, staffing, change management, and other issues. Quantifying qualitative views of risk through a structured process of discovery and analysis precludes deals driven solely by “the numbers” or emotion. Evaluating the entire portfolio of opportunities can help to close the value gap.



### BENEFITS

This approach identifies potential missed issues, unpleasant surprises, and probabilities of success. It clarifies how value changes under varying scenarios and supports exploration of strategic alternatives. Successive iterations enable a team to improve a deal or decision—or to develop breakthrough ideas or strategies. This approach can help to close the value gap by considering strategic advantages as well as financial goals, assigning different weights to specific benefits, promoting investment on a risk-adjusted basis, and considering portfolios under different futures. It also helps in standardizing values of various projects, prioritizing projects, and enhancing governance, transparency, communication, and alignment around investment decisions.

# What next?

As the saying goes, “Not to decide is to decide.” A decision on the need to upgrade your organization’s approaches to risk may well be warranted—or overdue. Deciding not to upgrade those approaches may be a growth-limiting, returns-limiting, or career-limiting choice that could generate millions in costs or forgone growth.

At stake is the stability, resilience, and value of the enterprise. Organizations that have evolved their approaches to risk (and there are many) have done so by embracing analytics, technologies, and innovations that harness data, expertise, and experience to drive a broader, more nuanced view of risk. And they often have prospered by doing so, shedding unnecessary costs and activities while leveraging risk for competitive advantage.

## ASK YOURSELF



- Have we moved from a primarily compliance-based and value-protection approach to risk to an approach that also embraces risk-taking for reward and value creation?
- Have we aligned risk governance and management to our strategy and aligned our policies and procedures accordingly?
- Have we harnessed data and analytics to create an enterprise-wide view of risk and to deliver timely risk information to decision makers at all levels?
- Do we monitor our entire business ecosystem and the broader risk landscape for emerging threats to our strategy, operations, and reputation?
- Do we regularly include our senior leaders in scenario planning and war-gaming exercises and use the results to enhance our capabilities and resilience and to adjust our strategies?
- Do we have a process for monitoring the assumptions underlying our strategy and investment decisions and for enhancing those decisions accordingly?
- Have we taken steps to identify and close the value gap that our portfolio of capital projects may be creating?
- Does the board have an understanding of our integrated risk management program and have we made it easy for the board to provide comprehensive oversight?

**If you answered “No” to any of these questions,  
it’s time to take steps toward achieving risk intelligence.**

**While every enterprise has specific needs and will take a unique evolutionary path to achieve its vision of the Risk Intelligent Enterprise, there has never been a better—or more urgent—point in time to begin that journey.**

# Contacts

Please share this perspective with your teams and contact us when you're ready to start your Risk Intelligence journey.

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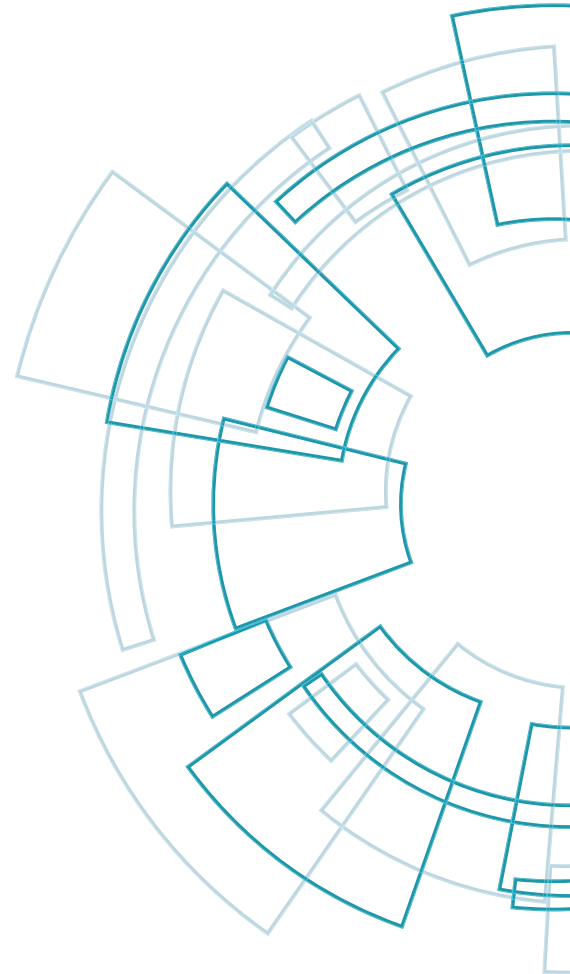
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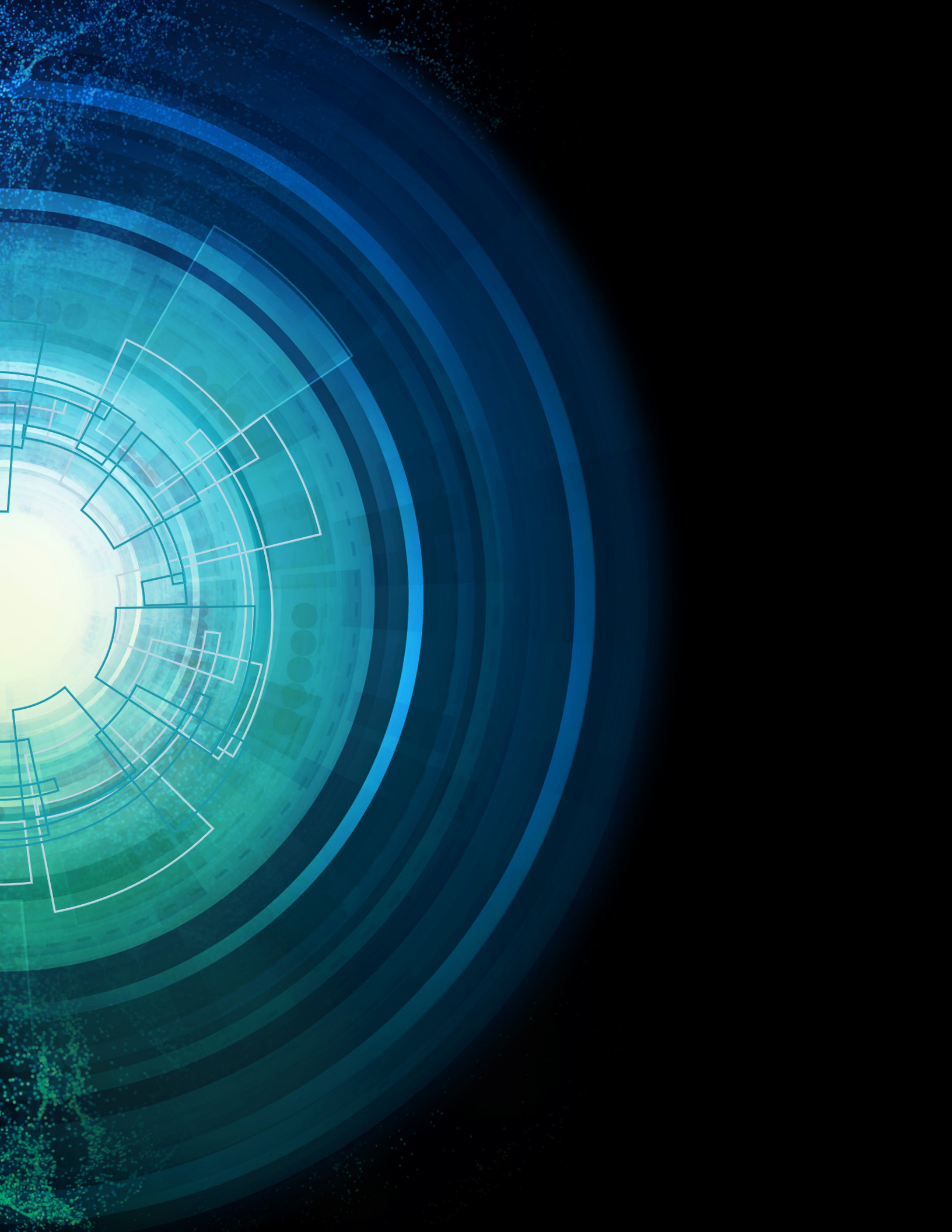
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