



Integrating ERM into Strategic Planning and Company Culture: A Case Study

**Sim Segal, FSA, CERA
President
SimErgy Consulting LLC**

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Risk culture

Extent to which ERM is integrated into:

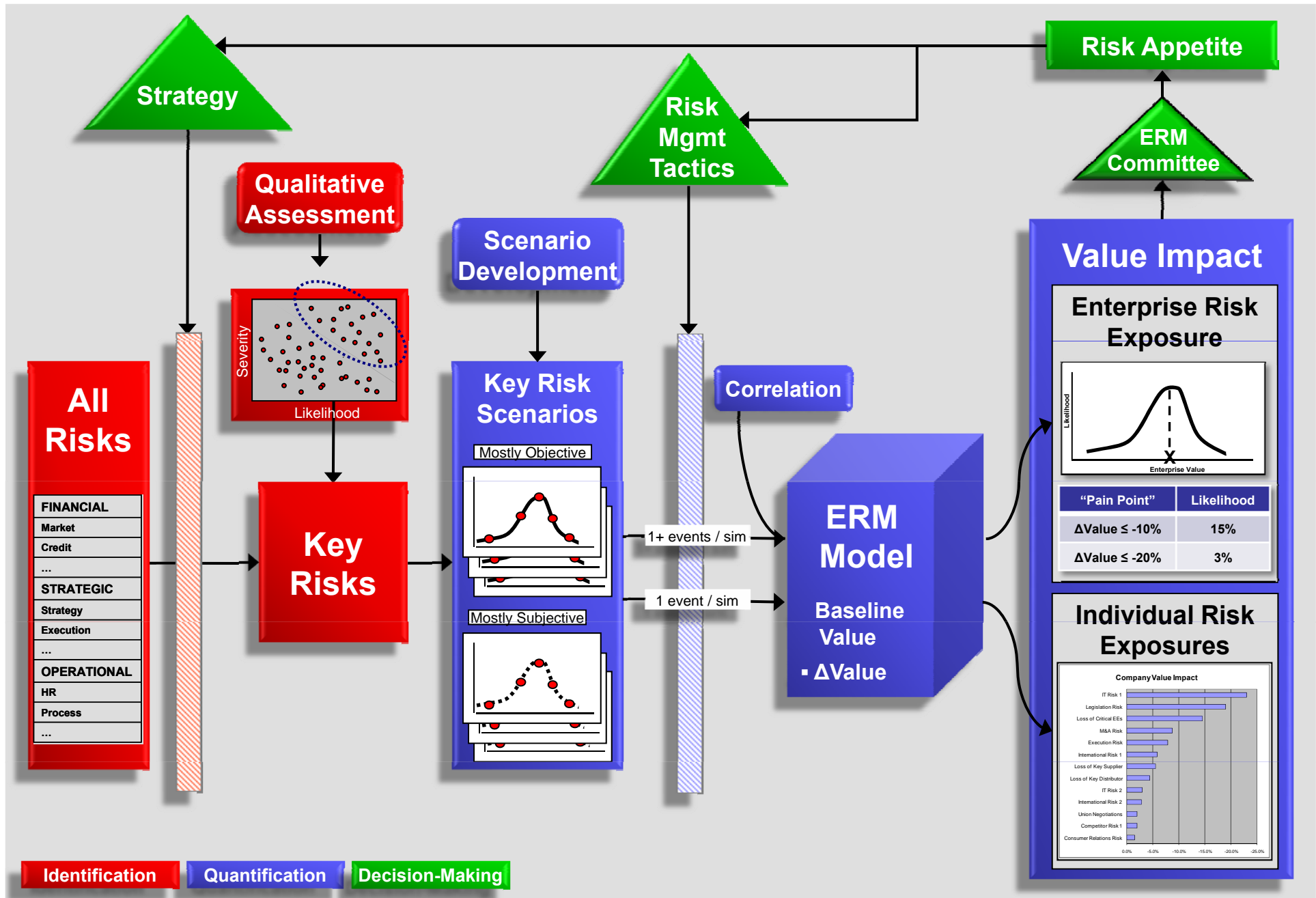
- Decision making
 - “Risk-priority” (to manage exposure levels, e.g., mitigation)
 - “Return-priority” (to increase value, i.e., strategic planning / other business decisions)
- Internal risk messaging
 - Business performance analysis
 - Incentive compensation

**Today's
focus**

Traditional approach fails to integrate ERM into decision making

	Traditional Approach
Do metrics support decision-making?	<ul style="list-style-type: none">▪ Not for operational or strategic risks▪ Only risk, not return
Do ERM models work?	<ul style="list-style-type: none">▪ Complex<ul style="list-style-type: none">❑ Unreliable quality❑ Slow response time❑ Lack of transparency❑ Violates significant digits rule
Is there buy-in from business units?	<ul style="list-style-type: none">▪ Corporate-driven, not enough business segment input▪ Compliance-oriented

Value-Based ERM Framework



Value-based approach supports integration of ERM into decision making

	Traditional ERM	Value-Based ERM
Do metrics support decision-making?	<ul style="list-style-type: none"> ▪ Not for operational or strategic risks ▪ Only risk, not return 	<ul style="list-style-type: none"> ▪ Metrics for all risks ▪ ΔValue = rigorous business case
Do ERM models work?	<ul style="list-style-type: none"> ▪ Complex <ul style="list-style-type: none"> <input type="checkbox"/> Unreliable quality <input type="checkbox"/> Slow response time <input type="checkbox"/> Lack of transparency <input type="checkbox"/> Violates significant digits rule 	<ul style="list-style-type: none"> ▪ Practical <ul style="list-style-type: none"> <input type="checkbox"/> Reliable quality <input type="checkbox"/> Fast response time <input type="checkbox"/> Transparency <input type="checkbox"/> Balance of significant digits
Is there buy-in from business units?	<ul style="list-style-type: none"> ▪ Corporate-driven, not enough business segment input ▪ Compliance-oriented 	<ul style="list-style-type: none"> ▪ Business unit-driven / Corporate for consistency ▪ Supports business segment goals (FMEA)

Value-based approach strengthens the strategic planning process

- Aligns baseline assumptions
- Aligns scenario assumptions
- Provides dynamic planning

Aligns baseline assumptions

- Aggregating projections
 - Identifies internal inconsistencies (sales force projection example)
- Analyzing trends
 - Comparing plan period projection to (a) recent financials; (b) industry sector expectations; and (c) projections beyond plan period
- Analyzing the valuation
 - Reasonability check versus market capitalization
 - Results by business segment
- Documenting and disseminating
 - Broadens awareness/understanding of baseline strategic plan
- Developing stress tests
 - Strengthens understanding of what is, and is not, included in baseline

Aligns scenario assumptions

- Consistent rigor in developing risk scenarios (FMEA)
 - Guided by FMEA expert
 - Consistent presence of corporate ERM team
- Standardized definitions of risk scenarios
 - Relies on potential quantitative impact on value (and to lesser extent likelihood) rather than rely on subjective labeling, such as “pessimistic”
- Uniform assumption about external environment
 - Assumptions shared across enterprise, allowing reconciliation of any differences

Provides dynamic planning

- Ad hoc ability to develop and evaluate strategic decisions, rather than once-a-year exercise
 - Reflects changes in external or internal environment
 - Reflects changes in strategy or tactics
 - Models “what if” scenarios
 - On a consistent and integrated basis
 - At enterprise and business segment level

Value-based approach also supports business decision making

- Analogous to strategic planning
 - Evaluate impact on baseline company value (return) and value volatility (risk)
- Other aspects
 - The need for speed (tech firm case study)
 - Dealing with soft assumptions (telecomm case study)
 - Stock buy-back or issuance

Contact information

Sim Segal, FSA, CERA
President

SimErgy Consulting LLC
Chrysler Building
405 Lexington Ave., 26th Flr
New York, NY 10174

(646) 862-6134 Office
(917) 699-3373 Mobile
(347) 342-0346 Fax

sim@simergy.com



www.simergy.com