



# ENTERPRISE RISK MANAGEMENT

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# Notable NFP Risk Events

- Activities by Bernie Madoff resulted in losses of \$106 million by Yeshiva University and its affiliates. They also led to losses of \$38.8 million by the Upstate New York Engineers Health Fund and \$26 million by New York University.
- The Global Fund to Fight AIDS, Tuberculosis and Malaria reported in 2012 that it uncovered misuse or unsubstantiated spending of \$43 million.
- Columbia University admitted in 2011 that it was defrauded of \$5.2 million via electronic payments.
- The Woodcock Foundation of Kentucky former chairman stole more than \$1 million, leaving the charity with assets totaling a mere \$8.
- Closer to home.....the Emergency Nurses Association 2001 Annual Meeting experience

# Key Questions to Answer

- How often do board and staff leaders give focused attention to business risks?
- How many business risks can you identify?
- Are you confident that your member and staff leaders would respond quickly and appropriately to a disaster or other risk event?

# Importance of a Comprehensive Risk Management Strategy (ERM)

- Risk events are commonplace
- Impact on business continuity
- Not all business risks are insurable

# An Ignored Fiduciary Duty

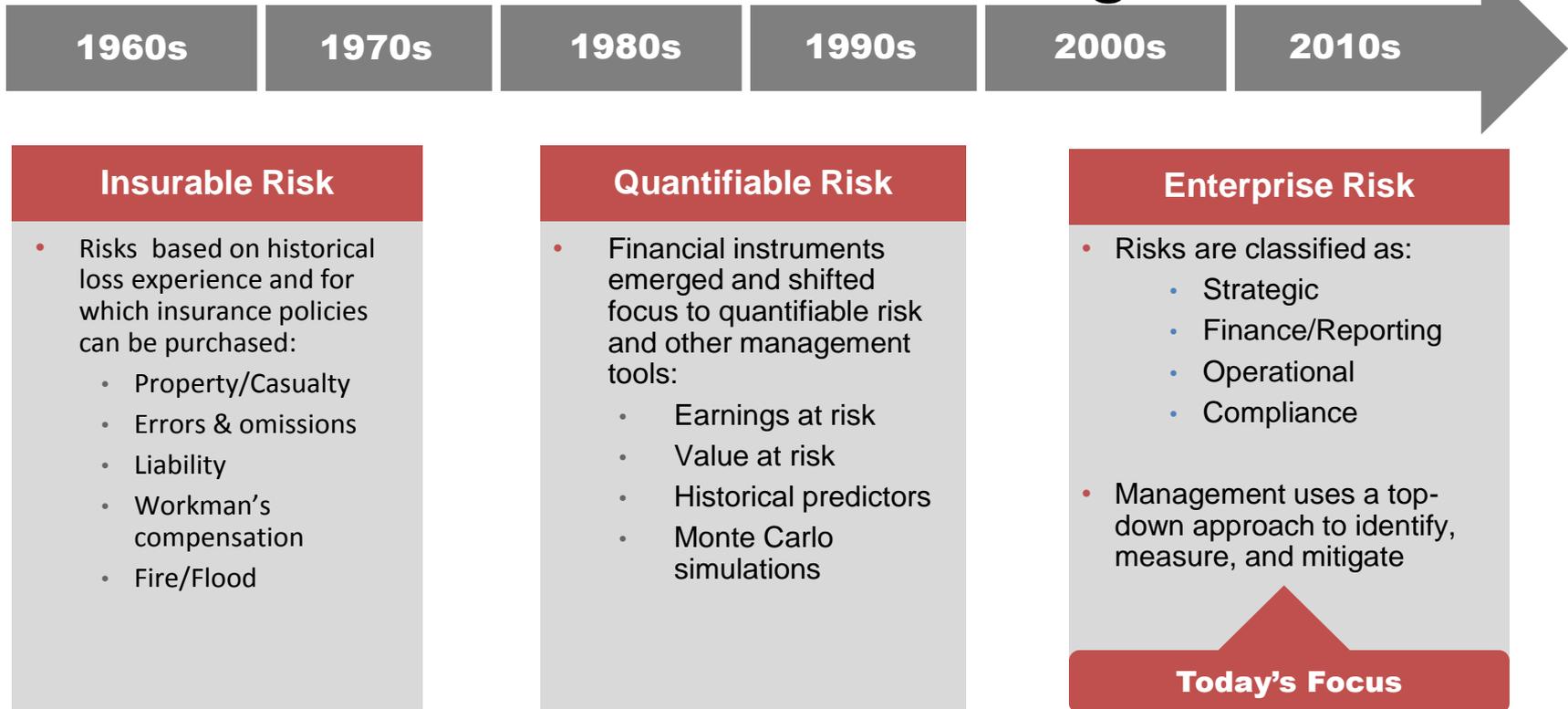
- It ain't "sexy"
- Important, but not urgent
- Board and staff leader competency deficiencies
- Assumptions regarding accountability
- Frog in the pot of boiling water

# What is ERM?

## The Committee of Sponsoring Organization (COSO) defined ERM in 2004:

- Enterprise risk management is a *process*,
- Affected by an entity's board of directors, management and other personnel,
- Applied in *strategy setting* and across the enterprise,
- Designed to *identify potential events* that may affect the entity and
- Manage risk to be within its *risk appetite*, and
- Provide *reasonable assurance* regarding the achievement of entity objectives.

# Evolution of Risk Management



# Two Most Common Myths About ERM

## **Myth #1:**

ERM is a process only handled by the chief financial officer or finance.

## **Fact #1:**

The ERM risk universe consists of strategic, financial, operational and compliance risks.

All members of senior management are needed to participate in the ERM process to have adequate knowledge and experience with the various risk strategies required.

# Two Most Common Myths About ERM

## **Myth #2:**

ERM is a periodic event that requires updates only quarterly, semi-annually or annually.

## **Fact #2:**

ERM is just like any other process within the organization (payroll, inventory, revenue, accounts payable, etc.).

ERM is a JOURNEY, not a destination. Your organization's risk profile is continuously changing, and your ERM process will need to adapt accordingly.

# ERM

## DEPARTMENT 1

- Risk 1
- Risk 2
- Risk 3

## DEPARTMENT 2

- Risk 1
- Risk 2
- Risk 3

## DEPARTMENT 3

- Risk 1
- Risk 2
- Risk 3

## DEPARTMENT 4

- Risk 1
- Risk 2
- Risk 3

# The ERM Process

- A systematic approach to manage risks
- Assign responsibility
- Inventory and categorize risks
- Prioritize risks
- Develop abatement strategies for high-priority risks
- Address during board orientation
- A recurring board meeting agenda item

# Inventory and Categorize Risks

- The balanced scorecard approach:
  - People
  - Financial
  - Goodwill
  - Property

# Fleshing out Risks - People

- Adequacy of board member liability insurance
- Conflicts of interest safeguards
- Legislative and regulatory compliance
- Future leaders pipeline
- Planning for unexpected member and staff vacancies
- Competitive/best practice human resources programming
- Employee morale and retention

# Fleshing out Risks - Financial

- Competition for member dues and engagement
- Product, program, and service competition
- Sponsorship, grants, exhibitor, and advertising revenue
- Investment management policy

# Fleshing out Risks – Goodwill

- Reputation with the general public
- Unforeseen and unwanted media attention
- Member satisfaction
- Key partner perceptions – education, advocacy, and components
- Internet behavior - spamming

# Fleshing out Risks - Property

- Building and equipment insurance
- Adequacy of technology infrastructure
- Data security
- Logo and trademark usage protection

# Prioritizing and Communicating Risks

# Risk Management Matrix

Risk Factor	Competitors	Current Status/ Risk Assessment	Risk Abatement Strategy	Risk Level
<b>PEOPLE – board directors, other member leaders, and employees</b>				
Board Member Liability	N/A	Association X currently maintains Director and Officer liability coverage through insurance broker F. Reimbursement levels vary depending upon the incident.	Association X’s insurance will be reviewed annually relative to coverage levels and competitive pricing.	 0 NO HURT
Key Staff Executive Continuity	N/A	Association X does not have in force a key executive succession plan (i.e., identification of internal candidates to succeed staff officers and/or action steps that will be taken in the event of an unanticipated vacancy in any of these positions).	A plan pertaining to the top two executives was developed in 20XX and will be further refined in 20XX. The remainder of the Executive Team will be addressed in 20XX.	 2 HURTS LITTLE BIT
Undesirable Employee Turnover	N/A	Turnover rates for the last two years have averaged 20%, which is higher than levels experienced at similar associations.	Association X will continue to administer bi-annual employee engagement and opinion surveys, followed by focus groups led by an external consultant, to assure morale levels remain high.	 4 HURTS LITTLE MORE

# Risk Management Matrix

Risk Factor	Competitors	Current Status/ Risk Assessment	Risk Abatement Strategy	Risk Level
<b>FINANCIAL – membership dues, product/program/service revenue, corporate support, and investment capital and income</b>				
Course 123	Course D, offered by Organization Y	Staff once viewed this to be more complimentary as opposed to competitive to our Course M. Course D used to focus exclusively on _____ whereas our Course M is more comprehensive. However, the most recent version of Course D includes additional modules that serve to make it more competitive with Course M.	Staff executed a marketing plan that highlighted Course M’s competitive advantage over Course D.  The revision of Course 123 is underway. With the revised content, select modules are being put online. Market research was conducted in 201X to ensure content delivery meets the needs of students, providers, instructors, and directors.	 4 HURTS LITTLE MORE
Annual Conference	Organization F Conference	Offerings presented at the Organization F conference are of interest to our members. Continuing Education credit can be earned by attending Organization F’s conference.  We have a collaborative relationship with Organization F and do not view the conference as significant competition to our conference.	No action at this time.	 2 HURTS LITTLE BIT
Advertising – Product Revenue	Various	Association X accepts advertising in publication S for products that directly compete with our own. Such advertising will continue to be allowed given the assumption that our products are superior, or at least perceived by our members to be superior.	The CEO will benchmark practices with other associations relative to this issue.	 2 HURTS LITTLE BIT

# Risk Management Matrix

Risk Factor	Competitors	Current Status/ Risk Assessment	Risk Abatement Strategy	Risk Level
<b>GOODWILL – overall public reputation, stature within the industry or profession, and working relationships with vendors and advocacy partners</b>				
Corporate Satisfaction	N/A	<p>Corporate satisfaction is partially assessed based on trends in their support levels. During the most recent fiscal year, 80% of our corporate partners maintained or exceeded the level of financial support as compared to the previous fiscal year. The previous year the corresponding percentage was 83%.</p> <p>Association X also measures satisfaction based on an annual survey administered to the primary contact person at each corporate partner providing more than \$_____ in annual support to Association X. 90% of respondents from our most recent survey indicated they were satisfied or very satisfied with the ROI they experience with our association.</p>	<p>We have designed a strategy for interacting with any corporate partner who decreases its support from the prior year, including personal reach-outs from the Chair and CEO. This will be implemented next year.</p> <p>We will continue to administer annual satisfaction surveys to Gold Level corporate partners.</p>	 2 HURTS LITTLE BIT
Relations with State Component Organizations	N/A	<p>Based on the most recent annual survey of state Presidents, 96% of them indicated they were satisfied or very satisfied with the support provided by the national headquarters office.</p>	<p>Association X will continue to administer annual satisfaction surveys, with the CEO proactively addressing areas of concern.</p>	 0 NO HURT

# Risk Management Matrix

Risk Factor	Competitors	Current Status/ Risk Assessment	Risk Abatement Strategy	Risk Level
<b>PROPERTY – buildings, equipment, technology, copyrights, and trademarks</b>				
Facilities and Equipment	N/A	<p>There is documented business continuity plan.</p> <p>An insurance policy is in force with Broker M that covers Association X in the event of property loss. Reimbursement levels vary depending upon the incident and the item that is damaged/destroyed.</p> <p>In June 20XX staff participated in a desk top mock disaster exercise facilitated by an external consultant.</p>	<p>The Business Continuity Plan is a living document and is continually updated.</p> <p>Association X’s insurance will be reviewed annually relative to coverage levels and competitive pricing.</p> <p>We will continue to run desk top mock disaster exercises.</p>	 0 NO HURT
Online Transaction Security	N/A	<p>Association X offers secure online ordering of products, memberships, and registrations. Our logo is prominently displayed on all Web pages that have an online ordering component.</p>	<p>IT staff conduct ongoing monitoring of any threats to the security of online ordering.</p>	 2 HURTS LITTLE BIT
Logo use	N/A	<p>Association X is readily identified by its logo. Standards for logo display are in place.</p> <p>The logo standards are issued to all external entities authorized to use the logo.</p> <p>There has been an increase in situations where the logo has been used inappropriately on various websites and printed collateral pieces developed by other organizations.</p>	<p>Association X will continue to actively enforce compliance with its logo standards.</p>	 2 HURTS LITTLE BIT

# Focusing the Board on ERM

- Periodic review of the risk management matrix
- Quarterly or semi-annual staff progress reports
- Board meeting time for external expert presentations

# Digging a Little Deeper

## Risk Description

- Lost access to facility and/or technology
- Ability to undertake a key event
- Unexpected departure of organizational leaders
- Unwanted publicity of organization or members

## Risk Mitigation Strategy

- Business continuity plan
- Key Event cancellation plan
- Leadership succession plan
- Crisis communications plan

# And the Buck Stops With.....

- Board Chair role:
  - Drive home with colleagues fiduciary responsibility
  - Assure topic is addressed in board orientation and meetings
  - Take an active, facilitative role to stimulate conversations
  - Assure appropriate risk management strategies are undertaken

# And the Buck Stops With.....

- CEO Role:
  - Assure risk inventories are undertaken
  - Assure strategies are implemented to mitigate highest priority risks
  - Delegate responsibility and hold staff leaders accountable

# Tying it Back to the Members

- Health of the organization depends on effective ERM
- Health of the profession or trade may depend on it!

# Questions and Answers

## Contact Information

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