

ERM VIDEO INSIGHTS

Transcript of Colleen Larson and Mark Beasley

Articulating Risk Appetite

Mark: Hello, my name is Mark Beasley. I'm the director of the Enterprise Risk Management initiative in the Poole College of Management at North Carolina State University. I'm pleased to be with Colleen Larson with Emergent Biosolutions to talk about the concept of risk appetite. Colleen, I know your company has been involved in trying to articulate risk appetite across the organization. Can you start with telling us why, what got you down that path?

Colleen: Sure. When first rolled out our ERM program in 2010, one of the feedback that we got during our interviews was that there's this perception that the company was risk-averse and the company had a growth strategy that it wanted to achieve. So one of the risks that we heard over and over again was their was risk to achieving that growth strategy if the culture in the company was so risk averse and the perception that that risk averse aversion was across the board.

Mark: So I understand that you started it with really with a workshop among Senior Management but there was a little homework done in advance. Can you give us a little sense of what you did in advance with these workshops?

Colleen: What we did was to take through the senior leadership team, a survey. We identified 19 key functional areas and the whole objective was to encourage more risk taking in appropriate areas. So we had to come up with what are those areas? And we came up with 19 key areas, critical areas for the company that were critical for executing our growth strategy, and we had a survey that went out to our senior leadership team and said, in each of these areas, how much risk is the company taking currently, and how much risk should we be taking? So we kind of got the delta on areas on maybe where we need to be taking a little bit more risks and there might be areas that were taking a little too much risk and that we should be scaling back a little bit and taking a little less risk. It kind of gave us a starting point for our CEO team to start really thinking for each of these key 19 areas, where are we, where should we be and how do we get there.

Mark: I'm sure that helped provide a little bit of motivation, particularly for those areas where taking more risks than we want to perhaps. So you did these workshops, give me a sense of who's involved? I guess you did some of the 19 (areas) in each workshop but not all of them?

Colleen: We started out with we thought we tackle three or four with the CEO team and his direct reports and what we wound up doing is tackling all 19 because we thought it was critical that tone from the top setting risk appetite comes from that CEO team, from the tone at the top and they need to be able to articulate what is appetite in a given area and what does that mean? Give some guidance. What's acceptable? What's not acceptable? So it's really defining those tolerances that give people guidance in each of those critical areas on what is good risk taking and what is not good risk taking in those areas.

Mark: For each of those 19, then you have a risk appetite statement of description, maybe? Would that be in words or numbers?

Colleen: We have it on the scale, basically from averse to open on a five-point scale and it really all comes around outcomes really. So it's about are you expecting the outcome. So if you're risk-averse, there should really be no tolerance around uncertainty around outcomes, where if you're open you're taking a risk fully understanding that there are going to be some uncertainties around outcomes and that's okay.

Mark: Then once you had the appetite then that led to the sort of the tolerances. What's acceptable, what's not. Did you find that was where more tangible sort of criteria were there to help people make business decisions they take back to their office?

Colleen: Absolutely. They needed to be not telling people how to make decisions but guiding people. So they had to be high level but where do we need to be taking more risk in these certain areas, where there are good risk taking objectives, and these are areas where not so much. So for example, are we willing, in M&A, to go into politically unstable countries, is that acceptable, not acceptable? So high-level, but they had to be tangible and can't be aspirational so we struggle that a little bit, but with your help, we actually got more tangible where it actually gave the function more of the sense of, are you operating in the right risk appetite level for your function.

Mark: I understand that you've aggregated those criteria into almost like a template or a laminated kind of document? Is that correct?

Colleen: We did. Before we had laminate documents so that people can turn into three pages. We laminated them and we gave it to our site and Senior Leadership team to take away. And what we really encourage is not just look at one area because they all work together, right. So if you have safety and ethics and integrity more at your verse, but you want to grow market and you want to do more M&A activity more at the higher levels, you have to take those all together. And we actually just revamped and refreshed

that model because what we saw originally is that we were kind of boxing it up. So now we have it more in arrow on a continuum and then we're actually using that to set a shared language for when cross functional groups go in to solve a complex problem. Different functions have different lenses for their appetite, but they don't want to lose track of the objectives. The objective might be grow M&A or market growth, but there might be some others that are kind of pulling that objective back, but we have issues over here and maybe IT or financial systems that were a little bit less risk-taking. And then it really becomes a conversation of can we resolve that, can we manage that so that it becomes within risk appetite, and be able to accomplish our objective of wanting to take more risk in M&A, in market growth opportunities. It just became a way that is a framework so cross functional group could talk about the different risks in the different areas to see if we can manage those in those functional areas to appetite and still accomplish our objective and get alignment in the group for complex business decisions.

Mark: It sounds like you started with the goal of making sure everybody understands we're not a risk-averse company. We are in certain areas, but others were not, and this provided a great communication starter, and then a decision tool for management.

Colleen: In many ways we found that we were over controlled and the opposite of control is create and we were trying to move the needle less on some of those areas where we need to be more creative or innovative and less control so that we could accomplish our strategy of growing the company.

Mark: Colleen, thank you very much for taking the time to show your perspectives on how making risk appetite practical has been beneficial so thank you

Colleen: Thank you.