

## ERM VIDEO INSIGHTS

### Transcript of Jim DeLoach and Mark Beasley

#### *Insights about What Boards are Looking for in ERM*

**Mark:** Hello, I'm Mark Beasley. I'm the Deloitte Professor of Enterprise Risk Management and Director of the ERM Initiative at North Carolina State University and I'm please to have Jim DeLoach with me from Protiviti. Jim, thank you for being here.

**Jim:** Thank you for having me.

**Mark:** Jim, I wanted to talk to you about your traveling all over the United States, probably the globe too, talking to all kinds of organizations particularly the board about risk oversight. So based on all your travels, what is your take on the conversation you're having with boards particularly about the role of risk oversight that they play. What are they asking you about?

**Jim:** Well, I think that there are number of issues that boards are facing and they get back to themes like dealing with cyber risks. I mean that there is a lot of fatigue out there in terms of cyber risks but it's not going away any time soon. The economy has, is a concern, regulatory risk, reputation risk, succession issues come up. And we've heard an uptick of emphasis on shareholder activism as well. So we've kind of seen that kind of activity and some of those concerns.

I think that directors know the very dynamic changing environment in their board. They look to management to give them a perspective on how that environment is effecting their organization with profile. And I think that's where the risk oversight process is focused on.

**Mark:** So I want to build on that. So they're turning to management saying I need to, I want to make sure I'm comfortable I guess with the risk information. Do we have the right profile? Is it complete? I'm sure. What are you seeing as far as boards putting more pressure on management for a risk process of some sort to be able generate that risk profile?

**Jim:** I think the questions that we're hearing boards ask most commonly and these are the boards that I would refer to as active in risk oversight because not all boards are active in risk oversight. That's unfortunate but that's the reality. And so those boards that are active in risk oversight are focusing on questions like what are our risk, how are we managing our risk, and how do we know? Which gets to the process point that you're talking about. Get process is the board's way of, if the understand the management process, then they understand how management is informed to be able to

respond to the questions around what our risks are and how we're managing those risks.

We've also seen a fair number of board deaths in CEO and their executive teams. Are we implementing enterprise risk management?

**Mark:** So, when we think about that and what is my process and how do we know we are getting the right risks? What are the biggest challenges you've observed across all kinds of entities in that process? What's the hardest part you see?

**Jim:** Well, as you well know Mark and your students know this as well. There's a whole host of different kinds of idiosyncrasies and specifics. But we if we just raise our line of sight just a little bit, I think first and foremost, there are three really broad challenges. One would be, what is enterprise risk management? Just coming to grips, grappling with that question, coming to grips with it, is a big challenge and makes CEOs uncomfortable. They hear the term. They don't know what it means. And CEOs don't want any undue burden put on their organization. They want to do the right thing but they don't want to do the thing that put a lot of burden on the organization. So how it fits and what it is and the value proposition question. That's the question around what am I going to get out of this if I do it? So that's a big challenge as well. And I think there's the question of ok, if I implement this, how is it going to impact the way I run my business? So if it ends up being an appendage from the rhythm of how I run and manage my business. It's a disaster. It never works. An appendage has very little impact. But how you implement it and the context of your strategy setting and execution, your performance management, those kinds of core management activities. It's very important.

**Mark:** So you know, this is my last question, look out to the future. I'm going to say put your crystal ball on the table. Where do you see the focus on risk oversight going over, let's say, the next five to ten years?

**Jim:** Well, you know, if you look back over what we've been doing in the past. We basically, risk management, enterprise risk management, whatever, however you want to describe it. It has been oriented around answering a question. Are we riskier today than we were yesterday? And what I see over the next five to ten years is more of a forward looking perspective to answer questions like, are we entering a riskier time? Or said another way, will we be riskier tomorrow than we are today? And that gives decision makers more, a better perspective. And I think two dimensions, driving that, two themes driving that. The first one I mentioned earlier. And that's integrating risk management with core management processes, like strategy setting, performance management, better articulation of risk appetite. Maybe more effective risk disclosures to articulate how we make risk management a differentiating skill. And a second theme around advancing risk measurement and monitoring and reporting. And that again comes again from integrating risk management with performance management with

emphasizing more lead indicators to balance out the traditional lag indicators we have in performance management systems. And maybe even dealing better by integrating risk management more with decision making so we can better understand the value that all of this activity has on a business. So I see those two themes helping companies become more forward looking to answer that question, will I be riskier tomorrow than I am today?

**Mark:** Well Jim, thank you for just sharing your insights. You do see a number of industries and companies all the time. And we appreciate your taking time to be with us here. So thank you.

**Jim:** Thank you for having me Mark. I appreciate it.