

Maximizing the Opportunity to Achieve
Expected Business Outcomes

OVERSIGHT OF CORPORATE RISK

- Motivation
- Benefits
- Getting There
- Oversight Considerations

Motivations

- May 19, 2009 - S. 1074 - Shareholder Bill of Rights Act
 - July 31, 2009 - Hearings regarding Mandatory Risk Committee
 - October 1, 2009 - Major CPA firm issues public policy alert regarding possible requirement for Risk Committee
- June 9, 2009 - Facing pressure from federal regulators to improve its risk oversight, a major bank forced out its CRO and continue a shake-up of its board.

Source: *The New York Times*

- June 12, 2009 - U.S. Rep. Gary Peters of Michigan introduced the Shareholder Empowerment Act of 2009
- September 24, 2009 - SEC announces the its newly-established Division of Risk, Strategy, and Financial Information

Motivations

- Industry
 - S&P July 2009 Progress Report - “Our sharpened focus on ERM is part of the evolution in how we look at companies we rate. The financial risk and business risk profiles are the two main parts of our credit analysis.
- Professional
 - NACD October 2009 - Blue Ribbon Commission on Risk Governance will unveil recommendations based on its year-long study about developing better frameworks and processes for risk oversight and governance.

Motivations

- Customer Requirements
 - RFP/RFQ Requirements
 - Regulatory Requirements (i.e. Basel II)
- Internal Requirements
 - EDS:
 - Provide an enterprise wide view of risk
 - Develop and expand a common risk management strategy
 - Instill a consistent level of risk awareness throughout EDS
 - Quadrem
 - Achieving expected outcomes
 - Increase board understanding of risk
 - Broaden understanding of risk across the management team

Who Benefits

- **The Board of Directors:**
 - Macro view of risk across the enterprise
 - Current view of risk priorities
 - Broad view of measures in place to manage risk
 - Foundation for a common dialog between board and management on risks
- **The CEO**
 - Obtains a composite view of risks
 - View of mitigation in place
 - Provides insight to managers view of risk
- **Managers**
 - Definition of risks under their responsibility
 - Ability to understand how risk is managed in other areas of the business
 - Insight into best practices across the company
- **The Company**
 - Establishes a well defined risk culture

Getting there

- Step 1. – Obtain Board Support
- Step 1. – Obtain CEO Support

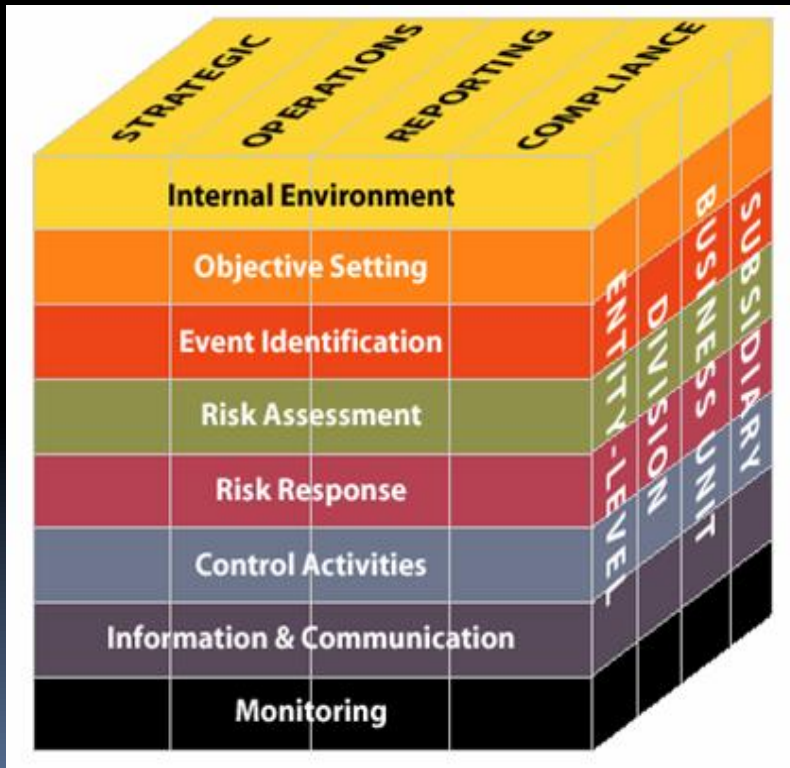
“Enterprise risk management is a process, effected by an entity’s board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.”

COSO ERM Framework

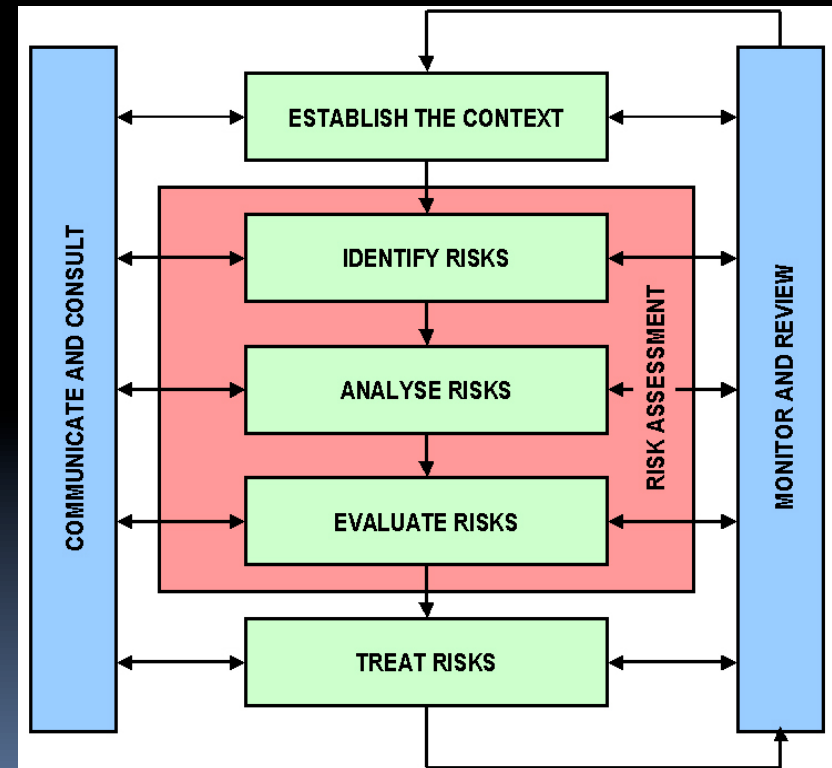
Getting there

- Select a Framework

COSO



ASNZ-4360



Getting there

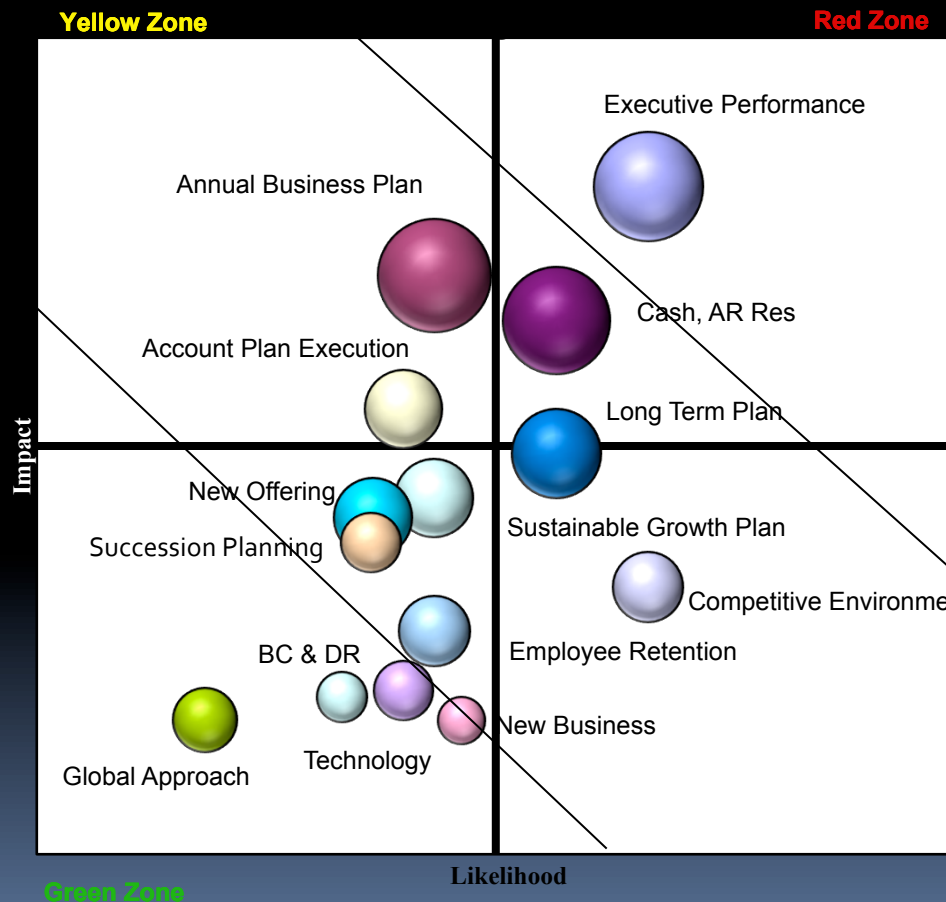
- Begin with the business plan
 - Too often the focus is on the risk not the business
 - Work from top to bottom
- Designate a CRO
- Democratize risk ownership
- Drive from qualitative to quantitative
 - No substitute for business judgment
 - Use metrics to validate judgment
- Vet results
 - The full management team needs to be involved

Risk Intersections

Risk Factors / Business Imperatives

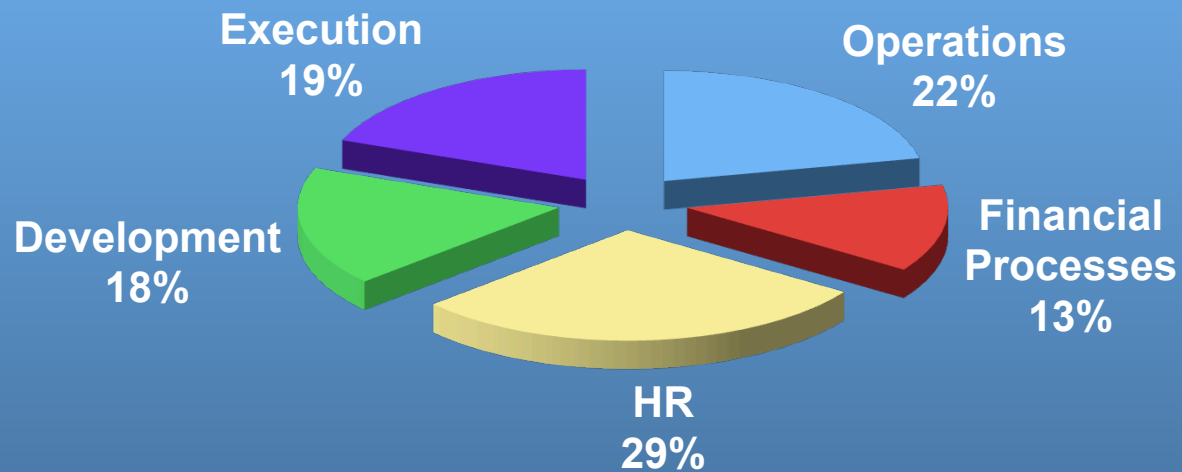
	Executive Performance	Cash management A/R	Technology Excellence	New Business Revenue	Employee Retention	Succession Planning
Industry Risk	X	X	X	X	X	X
Legal and Regulatory	X	X			X	X
Political Risk	X					
Financial Risk				X	X	
Catastrophic Loss	X	X	X		X	X
Strategic Risk	X	X	X	X		
Reputation/Brand Risk		X	X	X	X	X
Finance Risk		X	X	X		
Customer Contracting Risk	X		X			X
Human Resource Risk	X	X	X	X	X	X
Process Risk			X		X	X
Technology Risk		X		X		

Prioritize Risk



- Executive Performance
- Annual Business Plan Execution
- Account Plan Execution
- Sustainable Growth Plan
- Long Term Plan Execution
- Cash management, AR and Cash Reserves
- Competitive Environment
- New Offering Development
- Business Continuity & Disaster Recovery
- Employee Retention
- New Business
- Technology
- Succession Planning
- Global Approach

Understand Risk Distribution



Business Plan Risk Map

Business Plan Design Point / Critical Issue	Imperatives What needs to be done well for the business plan point to succeed?	Risk Factors What could affect the Business Imperative?	Business Process Mitigation What's being done about it?
Instability in the global economy and the resulting impact upon customer activity levels is adding pressure to forecasting accuracy	<ul style="list-style-type: none"> - Annual Business Plan Execution - Strategic Growth Plan - Long Term Plan Execution - Cash Mgt, A/R ,Reserves 	<ul style="list-style-type: none"> - Financial Risk - Strategic Risk - Customer Contracting Risk - Reputation/Brand Risk 	<ul style="list-style-type: none"> - Multi-year contracts - Awareness and tracking of Industry trends - Aggressive contracting process
Establishing a stable product so that future deployments can be implemented in shorter time periods	<ul style="list-style-type: none"> - Executive performance - Annual Business Plan Development - New Business Revenue - Technology 	<ul style="list-style-type: none"> - Competitive Environment - Catastrophic Loss - Customer Contracting Risk - Process Risk - Information Technology Risk 	<ul style="list-style-type: none"> - Channel relationships with BPO providers - Modular based pricing enables incremental customer scaling - Ecosystem of contractors for surge capacity
Shift new business sales people to help support existing accounts	<ul style="list-style-type: none"> - Account Plan Execution - Competitive Environment - Employee Retention & Development 	<ul style="list-style-type: none"> - Strategic Risk - Reputation/Brand Risk - Customer Contracting Risk - Human Resource Risk 	<ul style="list-style-type: none"> - Regular evaluation of wins and losses to determine why we were not selected - Defined leadership competency model

Establish an Annual Process

- July
 - Annual business plan development considering current risk environment
- October
 - Update Business Imperative risks based on direction of new business plan
 - Update Risk Event Scenarios to reflect current environment
 - Publish updated Risk Manual coincident with new business plan
 - Present results to Board of Directors during December meeting
- January
 - Review Risk Event Scenarios
 - Review and update mitigation processes
 - Determine sufficiency of current mitigation processes
- April
 - Update Risk Manual and present results to Board of Directors during May meeting
- July
 - Repeat process of considering current risk environment during annual business plan development

Oversight Considerations

- Designate a board committee or an individual board member to have specific responsibility for Risk Oversight.
- Obtain Risk Documentation
 - Articulation of prioritized risks by imperative
 - Description of mitigation processes
 - Risk Metrics
 - Likelihood frames of reference
 - Impact levels

Oversight Considerations

- Ensure a formal management process is in place to actively identify risk.
- Gain and confirm an understanding of management's ERM program.
- Challenge management to justify the effectiveness of mitigating significant risks.
- Ensure clear ownership within the company.
- Establish a channel for risk to be discussed/communicated

Oversight Considerations

- Ensure active board-level involvement in understanding how risk is managed
- Provide an independent/objective perspective
- Monitor drivers on the Federal, Industry and Professional horizon.
- Regular assessment/review of risk
 - Quarterly review of top risks
 - Semi-annual review of all risk

The Board's Role

The greatest contribution a board can make is by ensuring a formal risk management process has been established and by providing an independent perspective.

Ten question to ask about Risk

1. How is “risk” defined at the company?
2. How is risk prioritized?
3. How do the company prepare for unexpected events?
4. Does the company have a formal Enterprise Risk Management (ERM) framework?
5. Is there a process for considering risk when making business decisions?
6. Who owns risk in the company?
7. What role does risk management play in strategy development?
8. Are risk management considerations embedded into existing business processes?
9. What information is provided to the Board/Audit Committee?
10. Is there an established culture of ERM?

Motivations

*“ Stay out of jail. Stay off the 6 o'clock news.
Maintain your customers' trust...”*

Optimize Magazine – 2003

Appendices

- Sample Response to Customer Requirements

The enterprise risk management office gives a single, global contact point chartered to ensure that the businesses are prepared for and are managing expected and unexpected events. While we may never anticipate every scenario, or the timing of events that might occur, we have to make ourselves as ready as possible. The primary responsibility is to identify any issue that could impact the company's ability to meet our organizational objectives.

The Chief Risk Office works closely with key stakeholders in core operations and business support units to understand what's essential to create a business-aligned process for identification and resolution of operational risk issues and establish standards for risk management, and consistent reporting of those risks to senior management.

Appendices

- **Sample Business Plan Description**

The Company formally implemented a Risk management program in 2006. The program is based on an internationally accepted standard, specifically ASNZ 4360-2004. Enterprise Risks are formally documented and regularly updated in the The Company Risk Manual, which includes an articulation of each Business Risk, various Risk Event Scenarios, as well as calculations of likelihood and impact of each business risk in consideration of risk event scenarios. The program requires a formal review of each business risk and risk event scenario at least semi-annually at the senior management executive retreat, as well as annually by the board of directors. Major business risks are articulated in the Annual Business Plan which is subject to review by all shareholders. More frequent reviews occur based on changes to the business environment or risk event scenarios. Monitoring of risk has been incorporated into day-to-day business operations.

Appendices

Sample Risk Committee Charter

- The Risk Management Committee shall provide assistance to the full Board of Directors in fulfilling its responsibility to the shareholders, potential shareholders and investment community by:
 - A. Assessing, and providing oversight to management relating to the identification and evaluation of, major strategic, operational, regulatory, information and external risks inherent in the business of the Company and the control processes with respect to such risks;
 - B. Overseeing the risk management, compliance and control activities of the Company;
 - C. Overseeing the integrity of the Company's systems of operational controls regarding legal and regulatory compliance; and
 - D. Overseeing compliance with legal and regulatory requirements, including, without limitation, with respect to the conduct of the Company's business.
- Membership - The Committee shall be composed of at least three directors. The members of the Committee shall be appointed by the Board and shall serve until such member's successor is duly elected.
- Meetings - The Committee shall meet at least two times annually, or more frequently as circumstances dictate.

About Al Decker

Principal – Al Decker Associates



Email: aldecker@aldecker.com
Website: www.aldecker.com

Over the past 30 years, Al Decker has served as an Independent Board Member, CEO, Senior Executive and Big 4 Partner with significant executive experience in ERM, Audit, and Security

- *Quadrem International Holding Ltd.*
- Independent Director
- *Fiderus Strategic Security Services*
- Founder/CEO
- *Electronic Data Systems, Inc.*
- Executive Director Enterprise Risk Management
- Executive Director Security and Privacy Services
- *International Business Machines*
- Managing Principal World Wide Security Services
- *Coopers & Lybrand LLP*
- Partner