

# Strengthening Connection Between Risk Oversight and Strategy Execution

**Mark Beasley**

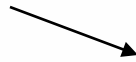
Deloitte Professor of Enterprise Risk Management and Director,  
NC State's ERM Initiative

December 1, 2011

# Huge Management Challenge

## Increasing Risks and Complexities

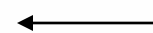
Economic  
Downturn Impact



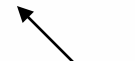
Supply Chain  
Sustainability Issues



Management and  
Talent Retention  
Issues



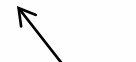
Challenges in  
Industry



Explosion of Technology  
Needs



Global Footprint;  
Political Unrest



Uncertain  
Legislative/Regulatory  
Environments



Security and  
Safety  
Concerns

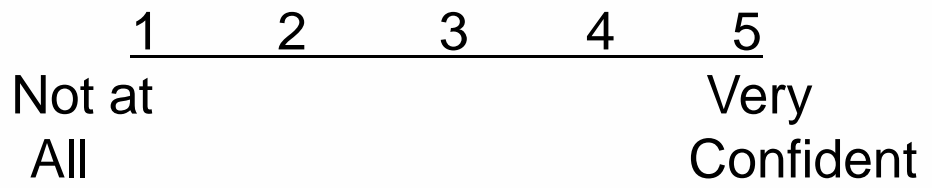


# Sample Risk Universe

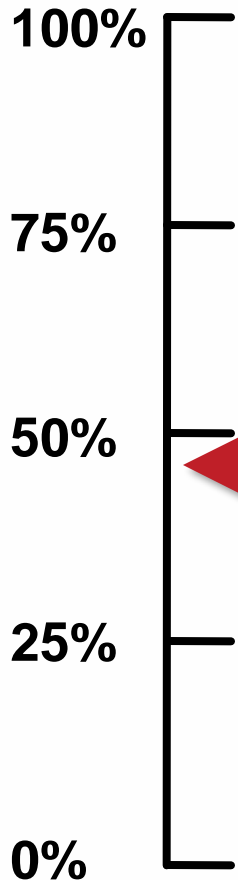
Strategic	Operations	Financial / Reporting	Legal / Compliance	
<p><b>Strategic Initiatives:</b></p> <ul style="list-style-type: none"> <li>Mission and Values / Culture</li> <li>Strategic Vision, Direction and Planning</li> <li>Overall Business Model</li> <li>Healthcare Delivery Strategy</li> <li>Strategic Growth Initiatives</li> <li>Acquisitions and Development</li> <li>Service Line Development Strategy</li> <li>Physician Alignment Strategy (I) (II) (III)</li> <li>Improvements in Emergency Services</li> <li>Expanded Patient Referral Channels</li> <li>Parallon Business Solutions Strategy</li> <li>Outpatient Strategy</li> <li>Accountable Care Organization Strategy (I)</li> <li>Technology &amp; Resources to Support Strategies</li> <li>Organizational Structure</li> <li>Risk Identification and Assessment</li> <li>Measurement, Monitoring and Reporting</li> </ul> <p><b>Regulatory, Acquisitions, and Disruptions:</b></p> <ul style="list-style-type: none"> <li>Valuation and Pricing</li> <li>Due Diligence</li> <li>Execution and Integration</li> <li>Alliances and Partnerships</li> <li>Misled Opponents due to Capital Constraints (I)</li> </ul> <p><b>Communication and Stakeholder Relations:</b></p> <ul style="list-style-type: none"> <li>Media Relations</li> <li>Investor / Stakeholder Relations</li> <li>Crisis Communications</li> <li>Employee Communications</li> <li>Impact of Social Media</li> </ul> <p><b>Market Dynamics:</b></p> <ul style="list-style-type: none"> <li>Economic Downturn (I) (II) (III)</li> <li>Competition (I) (II) (III)</li> <li>Acute Care Hospitals (I) (II)</li> <li>Physician-owned Specialty Hospitals (I) (II)</li> <li>Physician Syndication (I)</li> <li>Outpatient Facilities (I)</li> <li>Pricing Pressures (I) (II) (III)</li> <li>Managed Care (I)</li> <li>Government / Medicare and Medicaid (I)</li> <li>Quality-Related Reimbursement (I) (II)</li> <li>Healthcare Reform (I) (II) (III)</li> <li>Availability and Affordability of Health Insurance</li> <li>Changing Demographics of Population</li> <li>Certification of Need (CON) Restrictions (I)</li> <li>Impact of Changing Technologies</li> <li>Controlling Costs</li> </ul>	<p><b>Marketing and Business Development:</b></p> <ul style="list-style-type: none"> <li>Marketing and Advertising</li> <li>Physician Relationships / Patient Referrals</li> <li>Partnerships</li> <li>Changes in Payer Mix</li> <li>Changes in Healthcare Services Mix</li> <li>Risk Contracting (ACOs) (I)</li> <li>Pricing and Quality Transparency (I)</li> <li>Downturn in Volume Growth (I) (II) (III)</li> </ul> <p><b>People:</b></p> <ul style="list-style-type: none"> <li>Physician Shortages (I) (II) (III)</li> <li>Clinical Labor - Increasing Labor Costs and Shortages (I)</li> <li>Compensation and Benefits</li> <li>Training, Development and Performance</li> <li>Recruiting and Retention (I)</li> <li>Physicians (I)</li> <li>Clinical Staff (I)</li> <li>Employee Satisfaction</li> <li>Labor Relations / Unions (I)</li> <li>Passage of Employee Free Choice Act (I)</li> <li>Health &amp; Safety (Healthy Work Environment)</li> <li>Succession Planning</li> </ul> <p><b>Clinical Quality Initiatives / Patient Safety:</b></p> <ul style="list-style-type: none"> <li>Reducing Clinical Variation</li> <li>Clinical Process Improvement</li> <li>Electronic Health Record Initiative (I) (II) (III)</li> <li>Achieving "Meaningful Use" Goals (I)</li> <li>Patient and Physician Satisfaction</li> <li>Healthcare Quality / Integrity</li> <li>Quality Measures and Reporting</li> <li>Medication Errors and Medical Mistakes (I)</li> <li>Infection Control</li> <li>Clinical Trials / Research</li> </ul> <p><b>Emergency Preparedness:</b></p> <ul style="list-style-type: none"> <li>Natural Events</li> <li>Hurricanes, Tornados, Floods, Earthquakes, etc.</li> <li>Utility Outages (Power, Water, Communications, etc.)</li> <li>Pandemic</li> <li>Terrorism and Malignous Acts</li> <li>Business Continuity / Disaster Recovery (I)</li> </ul> <p><b>Chemical Security:</b></p> <ul style="list-style-type: none"> <li>Life Safety</li> <li>Workplace Violence</li> <li>Buildings / Facilities / Equipment</li> </ul>	<p><b>Billing and Collections:</b></p> <ul style="list-style-type: none"> <li>Payor Contracting (I)</li> <li>Accurate Coding of Services (I)</li> <li>Billing per Contracted Pricing and Terms</li> <li>Billing - Preventable Adverse Events (I)</li> <li>Collections</li> <li>Remittance Posting</li> <li>Denials / Overpayments</li> <li>Computation / Recording of Reserves</li> <li>Credit (Balance Monitoring / Payments)</li> <li>Bad Debts Unrecovered / Undercollected (I) (II) (III)</li> <li>Increases in Charity Care (I)</li> </ul> <p><b>Supply Chain:</b></p> <ul style="list-style-type: none"> <li>Vendor Contracting / Performance Mgt.</li> <li>Purchasing / Procurement</li> <li>Controlling Supply Costs</li> <li>Inventory Management</li> <li>Product Availability / Sourcing Alternatives</li> <li>Facility Order Fulfillment</li> <li>Product Compliance</li> </ul> <p><b>Information Technology:</b></p> <ul style="list-style-type: none"> <li>IT Initiatives</li> <li>Electronic Health Record Initiative (I) (II) (III)</li> <li>Achieving "Meaningful Use" Goals (I)</li> <li>IT Infrastructure / Support Model</li> <li>IT Security / Access</li> <li>IT Availability / Reliability / Continuity (I)</li> <li>Clinical Systems (I)</li> <li>Business Applications (I)</li> <li>Outsourced Operations (Maintenance Support)</li> <li>Data Integrity (I)</li> </ul> <p><b>Capital Spending (I) (II) (III)</b></p> <ul style="list-style-type: none"> <li>Capital Allocation</li> <li>Construction Projects and Equipment</li> <li>Routine Maintenance and Renovation</li> <li>California Seismic Requirements</li> </ul> <p><b>Service Provider Responsibilities:</b></p> <ul style="list-style-type: none"> <li>Parallon Business Performance Group</li> <li>Revenue Cycle Management</li> <li>Payroll Services</li> <li>Health Information Management</li> <li>Physician Credentialing Services (I)</li> <li>Parallon Vendor Management Solutions</li> <li>Parallon Supply Chain Solutions</li> <li>GPO Purchasing Services (HPG &amp; Core Trust)</li> <li>Physician Practice Management Services</li> <li>IT Services and Support</li> </ul>	<p><b>Market:</b></p> <ul style="list-style-type: none"> <li>Interest Rates / Floating Rate Debt (I)</li> <li>Foreign Currency Fluctuations</li> <li>Derivatives</li> <li>Market Value of Securities (I)</li> </ul> <p><b>Liquidity and Credit:</b></p> <ul style="list-style-type: none"> <li>Cash Management</li> <li>Refinancing Debt in a Tight Credit Market (I)</li> <li>Balancing Capital Spending to Debt (I) (II) (III)</li> <li>Agency Credit Ratings and Risk Scoring</li> <li>Banking Relationships</li> </ul> <p><b>Accounting and Financial Reporting:</b></p> <ul style="list-style-type: none"> <li>Budgeting and Forecasting</li> <li>Information and Reporting Integrity</li> <li>Internal Reporting</li> <li>Internal Control / SOX 404/202</li> <li>Statutory Reporting / SEC Reporting</li> <li>International Financial Rptg Sds (IFRS)</li> <li>Major Accounting Estimates</li> <li>Bad Debt and Managed Care Reserves</li> <li>Investment / Goodwill Impairment</li> <li>Tax Provision (I)</li> <li>Cost Reports (I)</li> </ul> <p><b>Tax:</b></p> <ul style="list-style-type: none"> <li>Tax Strategy and Planning</li> <li>Income Taxes (I)</li> <li>Property Taxes</li> <li>Sales and Use Taxes</li> <li>Payroll Taxes</li> </ul> <p><b>Capital Structure:</b></p> <ul style="list-style-type: none"> <li>Effect of Substantial Leverage (LBO) (I)</li> <li>Debt and Restrictive Covenants (I)</li> <li>Equity and Investor Control (I)</li> <li>Pension Funds</li> <li>Stock Options and Stock Grants</li> </ul>	<p><b>Governance:</b></p> <ul style="list-style-type: none"> <li>Board Performance/ Oversight Responsibility</li> <li>Tone at the Top</li> <li>Entity-Level Control Environment</li> <li>Corporate Social Responsibility</li> </ul> <p><b>Code of Conduct:</b></p> <ul style="list-style-type: none"> <li>Ethical Conduct / Regulatory Risks</li> <li>Fraud by Management (Anti-fraud Program)</li> <li>Regal Acts</li> </ul> <p><b>Legal:</b></p> <ul style="list-style-type: none"> <li>Governmental Investigations &amp; Litigation (I)</li> <li>General Liability (I)</li> <li>Malpractice Liability (I)</li> <li>Directors and Officers Liability</li> <li>Stakeholder Litigation</li> <li>Insurance</li> <li>Contracts</li> <li>Document Retention</li> </ul> <p><b>Regulatory:</b></p> <ul style="list-style-type: none"> <li>Medicare and Medicaid Regulations (I)</li> <li>Revolving Audit Programs (RACs/MOCs) (I)</li> <li>Sanctioned Individuals</li> <li>DIG Annual Vol/Plan</li> <li>Compliance with Stark Laws (I)</li> <li>Compliance with EMTALA (I)</li> <li>Physician Credentialing and Licensing (I)</li> <li>JCAHO Accreditation</li> <li>HPAA Privacy &amp; Security Rule Compliance</li> <li>HR Compliance (EEOC / FMLA)</li> <li>Adverse Chrg in Regulatory Environment (I) (II) (III)</li> <li>Anti-Trust/Competitive Practices (I)</li> <li>Geographic Concentration (PL and TX) (I)</li> <li>Payment Card Industry (PCI) Compliance</li> <li>Security Regulations</li> <li>Health, Safety &amp; Environmental Regulations</li> <li>International Compliance (Foreign Corrupt Practices Act and the UK Bribery Act)</li> </ul>
<p><b>Legend:</b></p> <ul style="list-style-type: none"> <li>(I) - risk category identified in "Risk Factors" section of 10/31/07 Form 10-K</li> <li>(II) - risk category identified in HCA's 2010 Risk Assessment as one of the "Top Ten Business Risks" (III represents the ranking for 2010)</li> <li>(IV) - risk category identified in HCA's 2008 Risk Assessment as one of the "Top Ten Business Risks" (III represents the ranking for 2008)</li> </ul>				
<p>*** Version 1b - A/O 08/02/11 ***</p>				



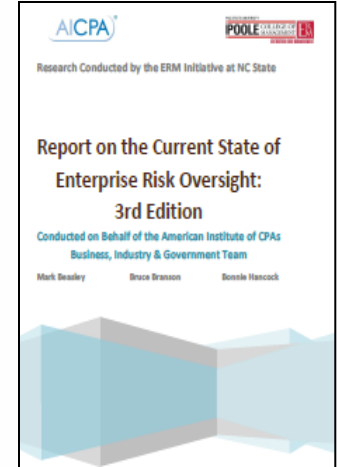
**How confident are you that organization's leadership uses this to drive strategy of the organization?**



# Level of Satisfaction



43% are unsatisfied with the nature and extent of the reporting of key risk indicators to senior executives regarding the entity's top risk exposures



# R.I.S.K

## 48%

**Describe their Risk Oversight as  
Very Immature or Developing**

## Real Question

*Is Risk Management viewed as a*



Compliance  
Exercise?

Loss  
Prevention?

Strategic  
Tool?

Value  
Creation?

## Most Fail to See Value

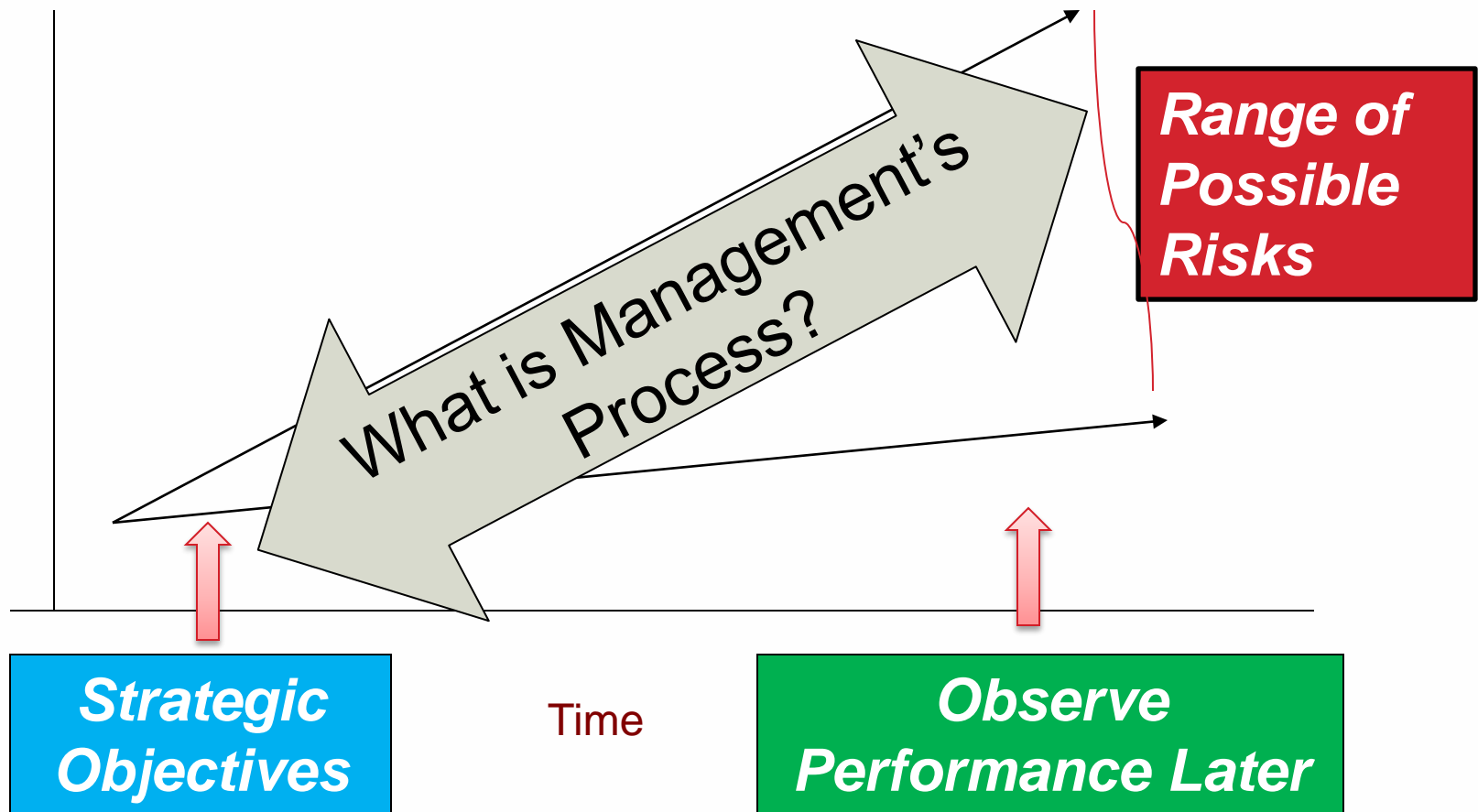


Compliance  
Exercise  
Loss  
Prevention

Strategic  
Tool  
Value  
Creation?

*Only 11% say their enterprise's risk oversight is  
**extensively** or **mostly** providing strategic  
competitive advantage*

# Entities Moving to Ensure ERM is Value-Adding



# Enterprise Risk Management Approach

*ERM 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, manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.*

-Committee of Sponsoring Organizations of the Treadway Commission  
(COSO 2004) (see [www.coso.org](http://www.coso.org))

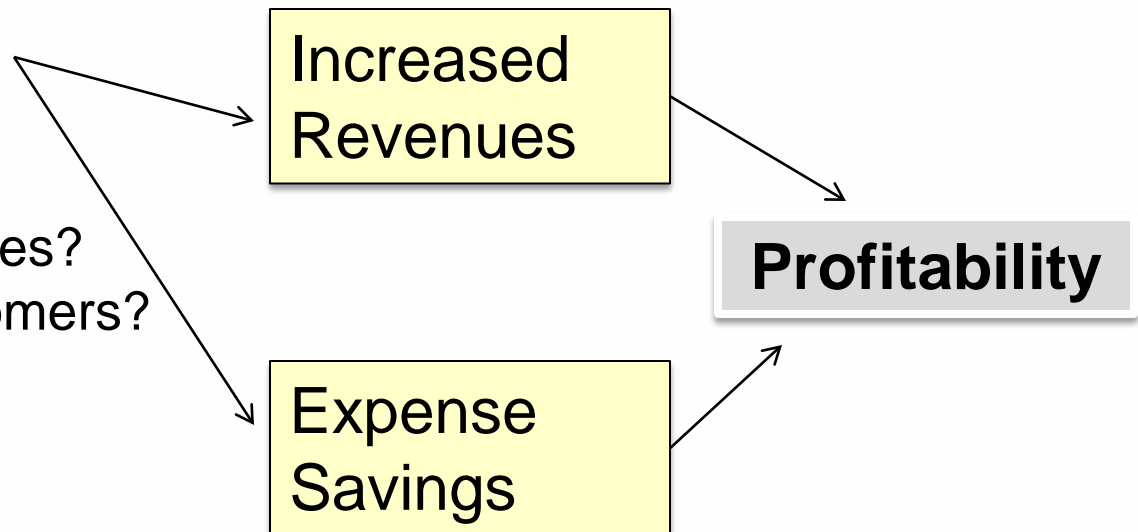


**Strategic Purpose**

## Step 1: Really, Really Understand Business

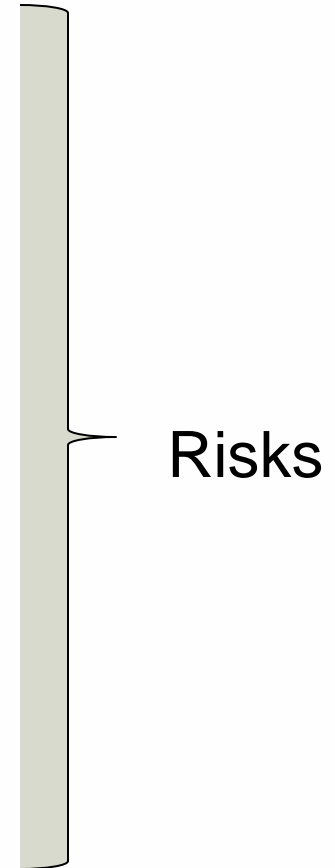
**What are the current drivers (“crown jewels”) of business?**

- Unique Products or Services?
- Value perceptions of customers?
- Historical market leader?
- Unique talent/expertise?
- Outstanding Brand?

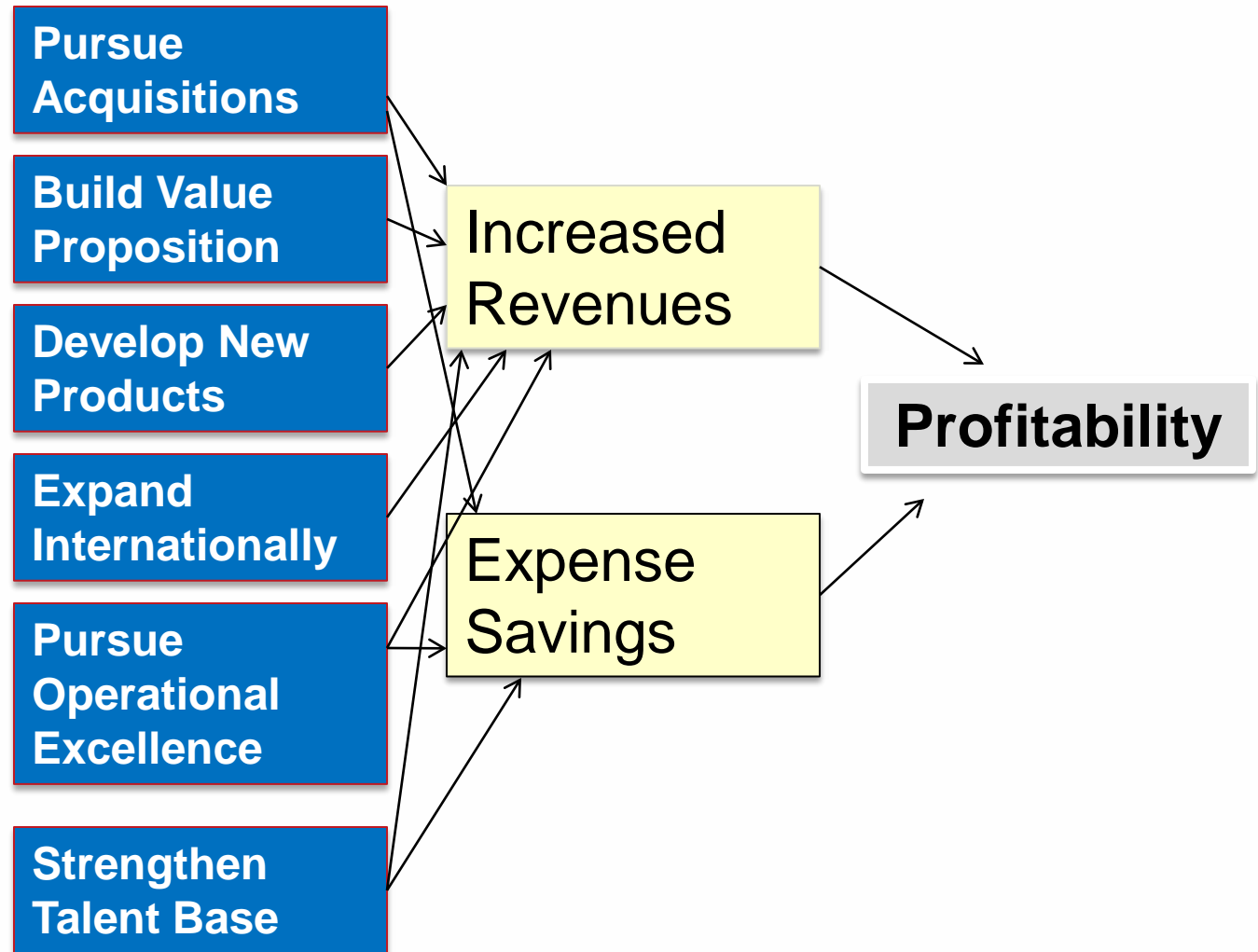


## Analyze Critical Factors Supporting Value

- 1. What must continue going right for existing core driver to retain its value to the business?*
  - *Market conditions that must remain?*
  - *Key technologies and operations that must continue?*
  - *People critical to process?*
- 2. What assumptions are we making about the long-term value of crown jewel?*
  - *Likely to change over time?*
  - *How monitored?*



## Step 2: Really Understand New Strategic Initiatives



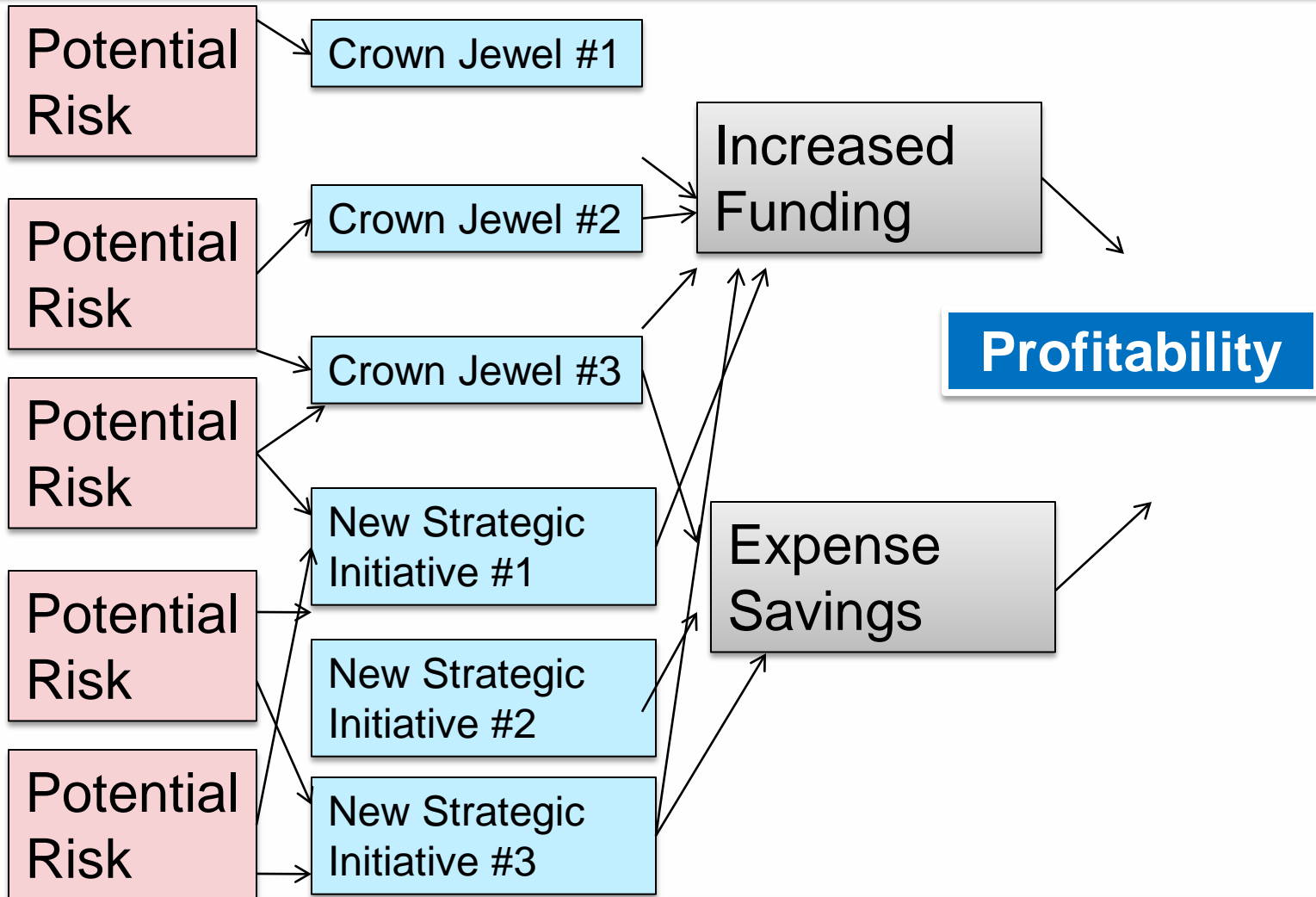
## Understanding New Strategic Initiatives

1. *What must go right for strategy to be successful?*
  - *Critical steps to success of each strategy?*
  - *What is hardest aspect of this strategy?*
  - *How long will it take before we know if these strategies were the right ones?*
2. *What assumptions are we making?*
  - *How developed?*
  - *Likely to change over time?*
  - *How monitored?*



Risks


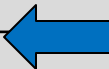
# Step 3: Identify Most Important Strategic Risks



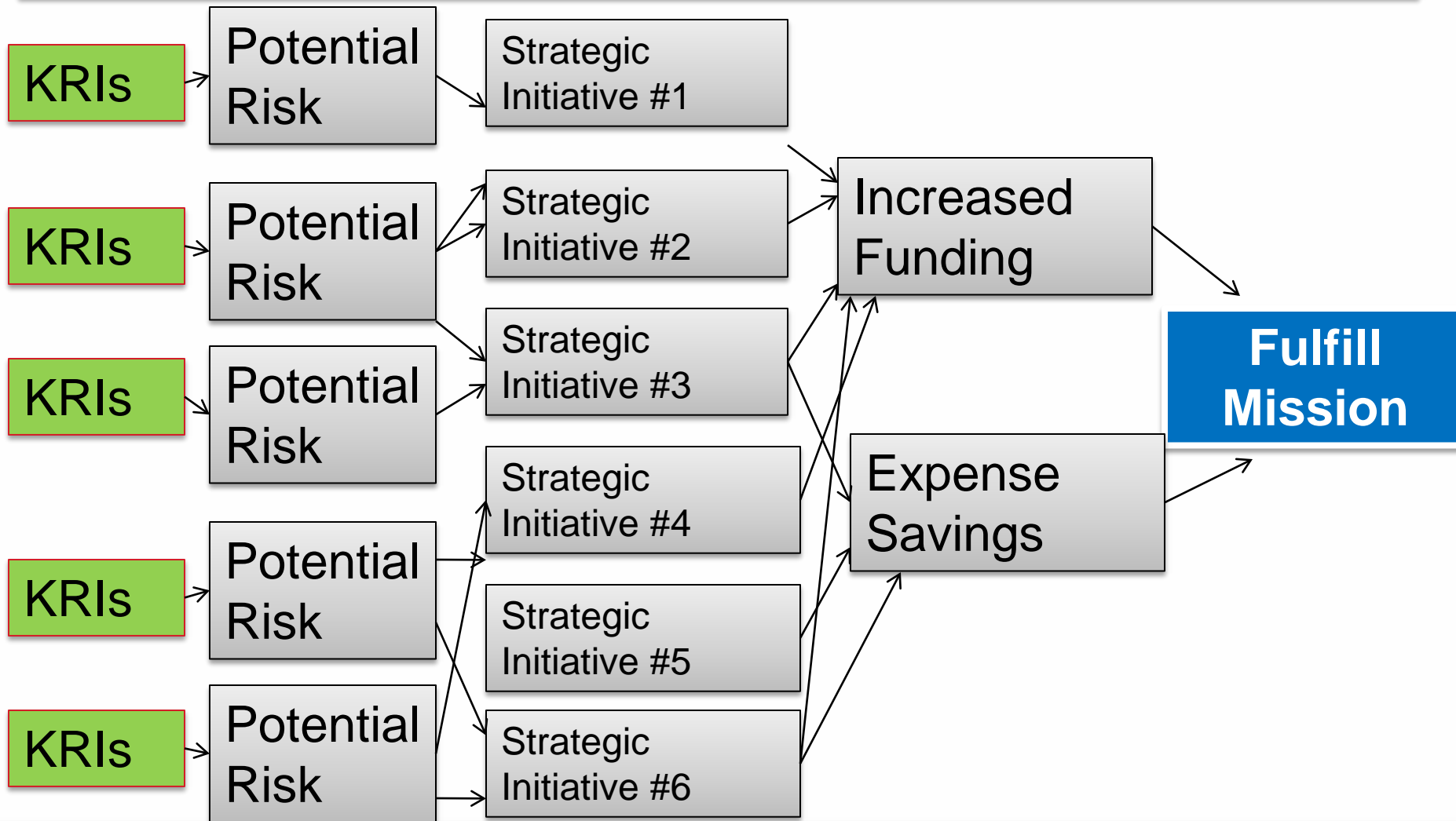
## **Think About The Following:**

- **To what extent are emerging strategies addressing already existing risks?**
- **How might the success of one strategic initiative**
  - **Create risks for another strategy?**
  - **Undermine the value of a “crown jewel”?**
- **To what extent are strategies within our overall appetite for risk taking?**

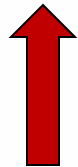
# Step 4: Create an Enterprise Strategic View of Risks

Key Risks Identified	Strategic Initiative #1	Strategic Initiative #2	Strategic Initiative #3	Strategic Initiative #4
<div style="border: 1px solid black; padding: 5px; display: inline-block;">Strategies</div> 				
Risk #1	X	X		
Risk #2		X		X
Risk #3	X		X	
Risk #4	X	X	X	X
<div style="border: 1px solid black; padding: 5px; display: inline-block;">Risks</div> 	X			
Risk #6			X	X
Risk #7	X		X	
Risk #8			X	
Risk #9		X		
Risk #10	X		X	

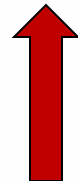
# Step 5: Develop Metrics to Monitoring Risks



# KPIs vs. KRIs

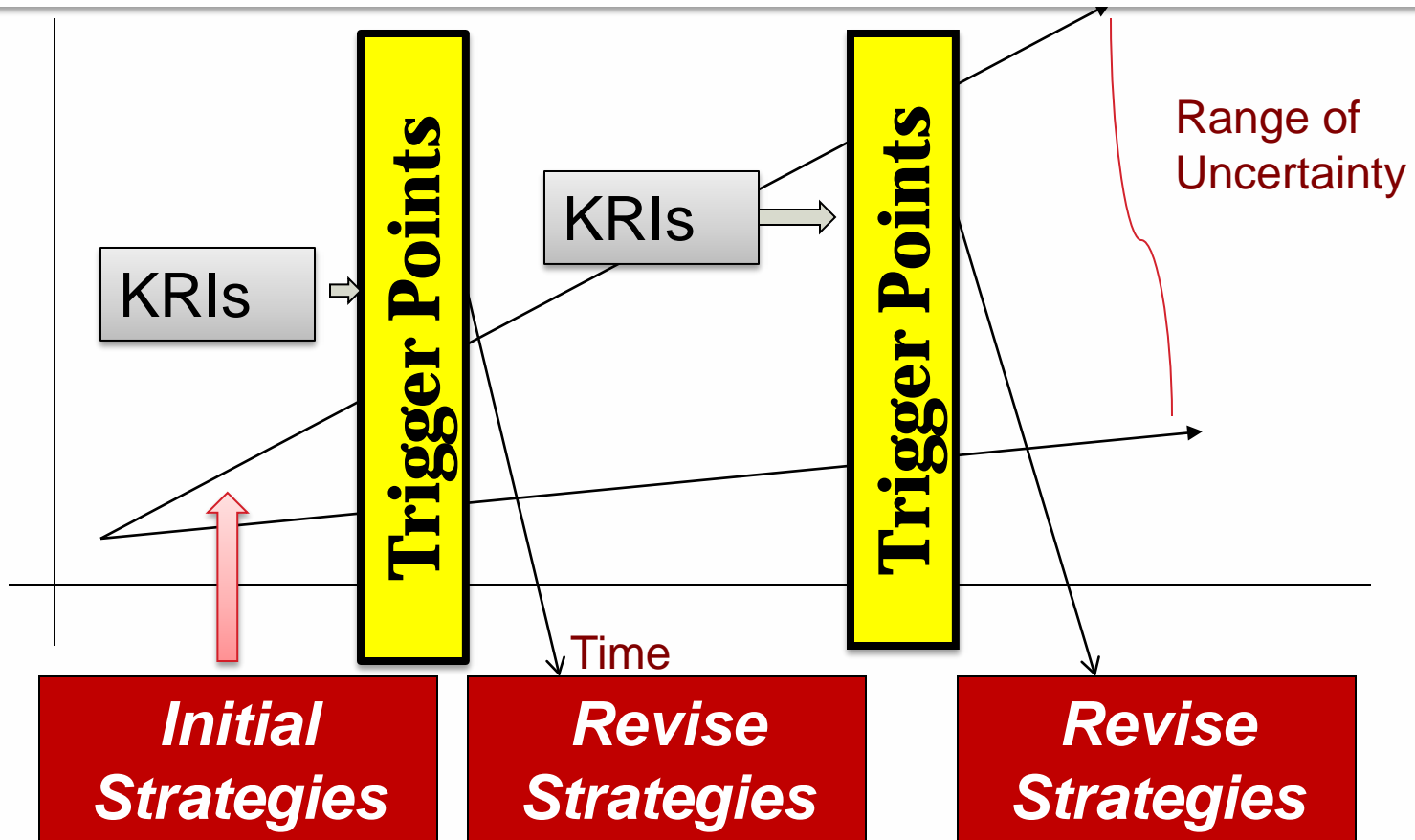


Historical



Forward Looking

# Proactive Management of Emerging Risks



# Goal: Expand Value Proposition of Risk Oversight



Compliance  
Exercise

Loss  
Prevention

Strategic  
Tool

*Traditional*  
Risk Management



*Enterprise*  
Risk Management

1<sup>st</sup> Page of Google Search on "ERM"



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July 22, 2009

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articles  
summarized**

## ERM in the News

Volume 3, No. 12  
October 25, 2010

The Enterprise Risk Management Initiative (ERM Initiative) at North Carolina State University's College of Management is sending you this brief e-mail newsletter to highlight the following recent ERM-related news:

1. [Linking ERM and Strategy: An Example from Target Corporation](#)
2. [Panel of ERM Experts Discusses "The Value Proposition of ERM: Strategic or Compliance?"](#)
3. [Department of Homeland Security Studies Risk Management Practices in Private Sector](#)
4. [Managing Risks of Social Media](#)
5. [An Attorney's View of Board's Role in Risk Management](#)
6. [Five Issues for Audit Committee Consideration of Risk](#)
7. [Recent Business Week Article Highlights Risk Leadership Needs](#)
8. [Evaluating Impact of Compensation Plans](#)

See the following for additional information:

### [Linking ERM and Strategy: An Example from Target Corporation](#)

Launching an ERM process can be a daunting task, especially in large, complex organizations. The importance of keeping the risk oversight process simple, but strategic, can be the key to realizing strategic value from ERM. Tony Heredia, Vice President of Corporate Risk and Responsibility at Target Corporation, shared insights from his experience in helping strengthen their organization's integration of enterprise risk oversight and strategy. Creating opportunities for executive management dialogue about critical emerging risks is proving to be invaluable as the company navigates the highly competitive retail business in the new economy. [Read about the Target experience.](#)

### [Panel of ERM Experts Discusses "The Value Proposition of ERM: Strategic or Compliance?"](#)

The ERM Initiative's October 1, 2010 ERM Roundtable Summit featured a panel of executives responsible for ERM leadership at organizations including Advance Auto Parts, Standard & Poor's, RTI International, and Public Service Enterprise Group that discussed the topic of positioning ERM for

Twice monthly  
distribution

[www.erm.ncsu.edu](http://www.erm.ncsu.edu)

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