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Leveraging Enterprise Risk Management to Shape Strategy – a Board Perspective

Greg d'Arville



Definitions of Risk

- The effect of uncertainty on objectives (AS/NZS ISO 31000)
- The possibility that an event will occur and adversely affect the achievement of objectives (COSO ERM Framework)
- The quantifiable likelihood of loss or less-than-expected returns (Investor dictionary)



Risk & Strategy – Board Role

- Aligning risk appetite and strategy
- Enhancing risk response decisions
- Reducing operational surprises and losses
- Identifying and managing multiple and cross-enterprise risks
- Seizing opportunities
- Improving deployment of capital

**COSO ERM
Framework**



The heat map

H	H	E	E	E
M	H	H	E	E
L	M	H	E	E
L	L	M	H	E
L	L	M	H	H



The math trap

‘The real trouble with this world of ours is not that it is an unreasonable world, nor even that it is a reasonable one.

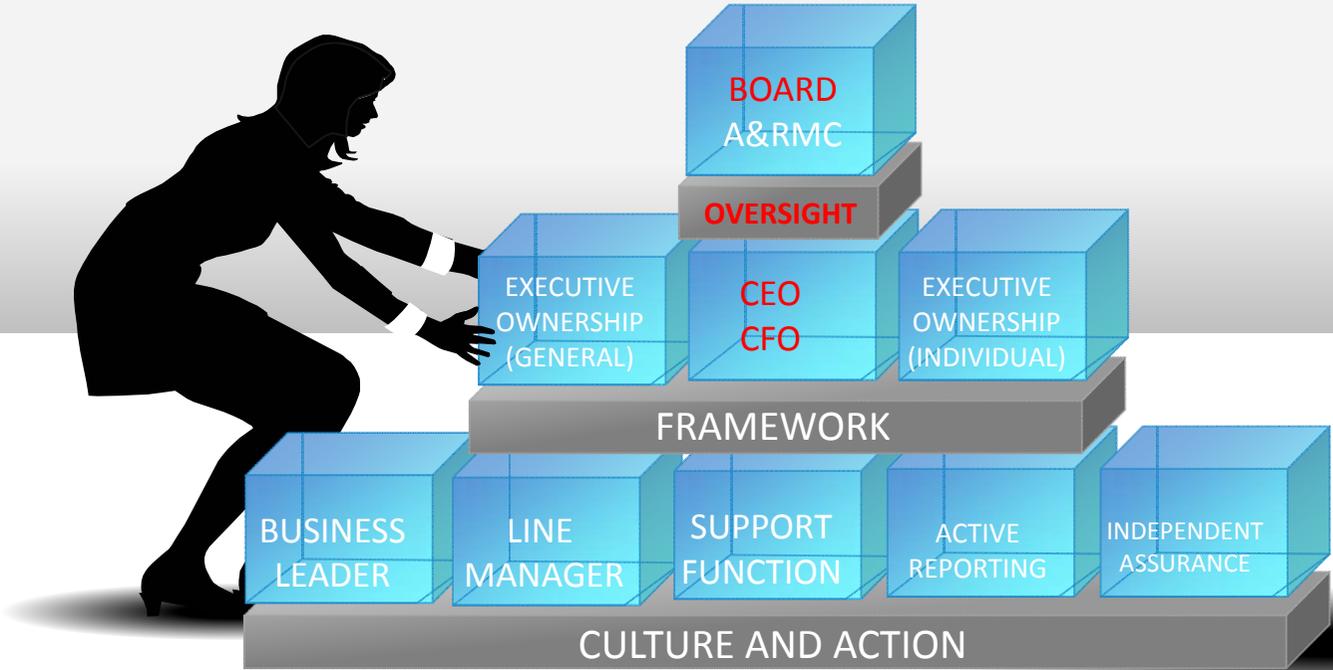
The commonest kind of trouble is that it is nearly reasonable, but not quite.

Life is not an illogicality; yet it is a trap for logicians.

It looks just a little more mathematical and regular than it is; its exactitude is obvious, but its inexactitude is hidden; its wildness lies in wait.’

G K Chesterton

Enterprise Risk Management



Quantification Challenges

- Measurement of impact – reputational and branding dimensions
- Calculating depreciation on human/ other intangible resources
- Institutionalised deception and the shooting of messengers

Risk Management – two +/- cases



COTTON ON



COTTON ON
FOUNDATION

Global growth, domestic risk

Cotton On added 200 stores and two countries to its global business in the past year. It aims to incorporate ethical concerns into its value proposition. But Federal Court action re flammable nightwear could have multi-market consequences ...

Speed vs integration, IP risks

83 million subscribers, 7000 employees – Andrew Mason says “We chose speed over integration”. But with copycats taking his brand name hostage in Australia and elsewhere, and 2010 losses of \$389 million – would some planning have helped?



Groupon