

# MARIM CONFERENCE 2017

## Risk & Resilience in a VUCA World

26 - 27 July 2017 Le Meridien Putrajaya



### **Putting on VUCA Lens in Mitigating Business Risks**

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Leader, EY Asia Pacific Advisory  
Centre



# Context of VUCA

..And how to address within a  
risk/strategy framework

July 2017

# A practical example of managing an initiative in a VUCA world

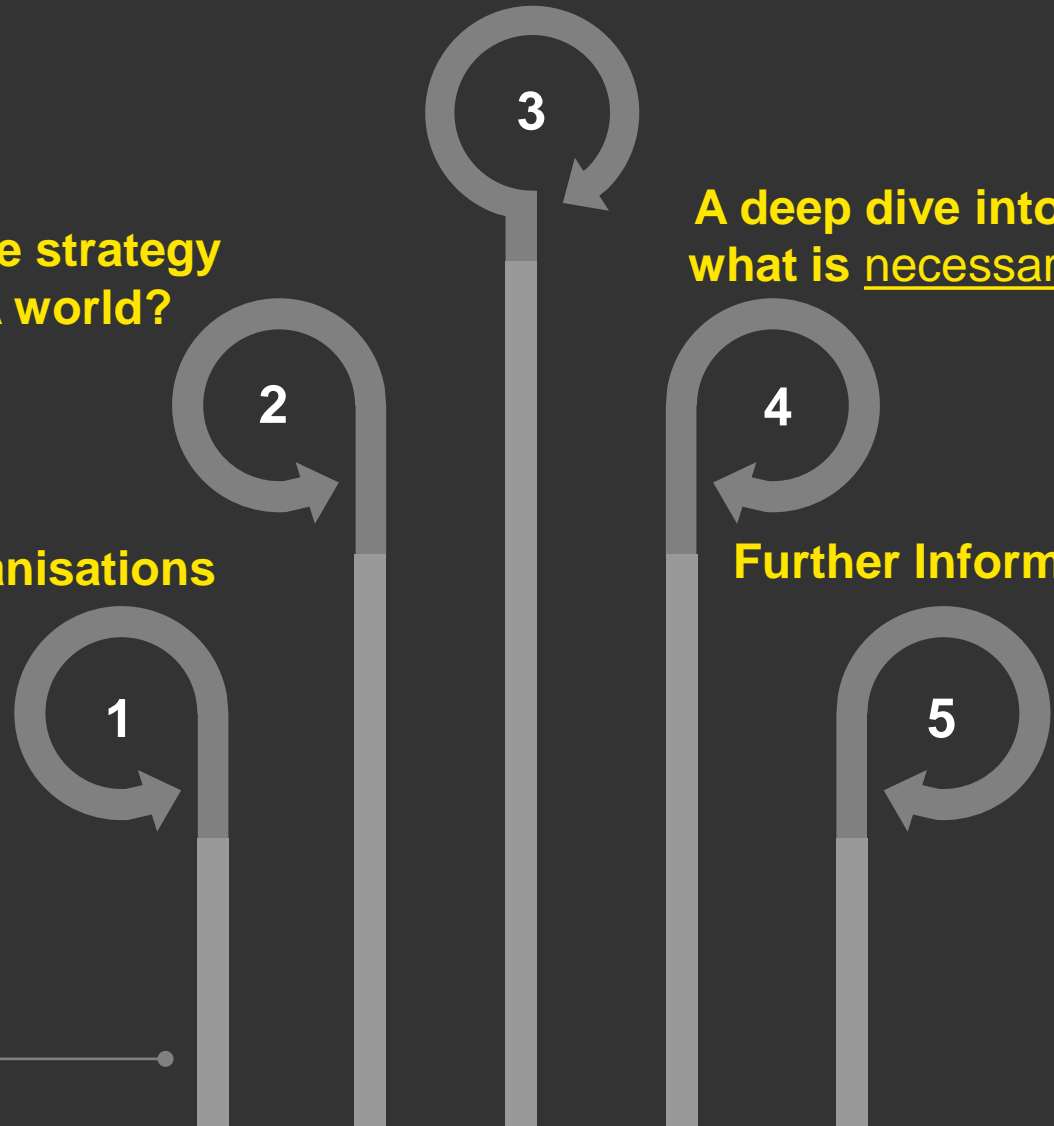
How do we manage strategy and risk in a VUCA world?

Where are other organisations in terms of risk?


A deep dive into what is necessary

Further Information

## Table of Contents

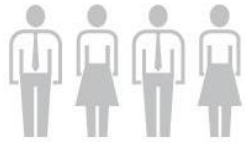






# Where are other organisations in terms of risk?

## Profile of participants



**1,196**  
respondents

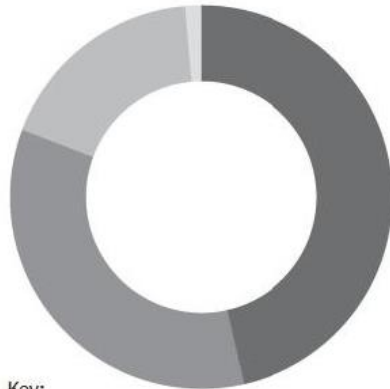


**63**  
countries worldwide



**25**  
industry sectors

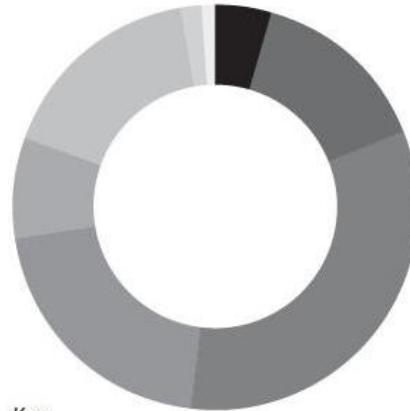
## Respondents by area



Key:

EMEIA	556
Americas	411
Asia-Pacific	214
Japan	15

## Respondents by total annual company revenue



Key:

More than US\$50 billion	55
US\$10 – US\$50 billion	174
US\$1 billion – US\$10 billion	393
US\$100 million – US\$1 billion	248
US\$10 million – US\$100 million	95
Less than US\$10 million	198
Government, nonprofit	21
Not applicable	12

## Respondents by industry sector

Automotive and transportation	77
Banking and capital market	146
Cleantech	4
Consumer products	121
Government and public sector	72
Health care	46
Insurance	49
Life sciences	32
Media and entertainment	29
Mining and metals	46
Oil and gas	53
Power and utilities	90
Real estate	21
Technology	73
Telecommunications	48
Wealth and asset management	20
Other (please specify)	269

# Ability to adjust business strategy based on timely risk information

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77%

of respondents evaluate their organization's risk profile on an annual basis, limiting their ability to adjust their business strategy based on changes to their risk landscape.



78%

of respondents only prepare management dashboards annually or quarterly, indicating further opportunity exists to provide decision-makers with vital risk insights.



85%

of respondents indicated opportunity exists to further improve the linkage between risk and business performance.

# Planned/Actioned improvements

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56%

of respondents' organizations have created a chief risk officer position to provide oversight over risk management activities.



67%

of respondents expect risk activities to be well-coordinated within three years.



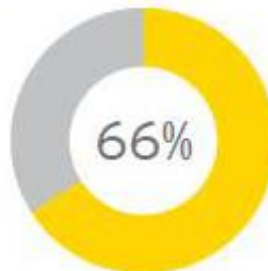
### Top five risks

1. Financial
2. Operational
3. Regulatory
4. Cybersecurity
5. Reputational

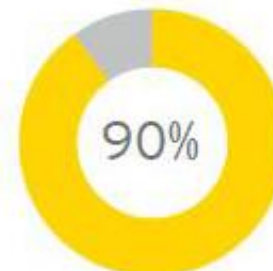
### Bottom five risks

1. Geopolitical crises
2. Natural disasters
3. Data privacy
4. R&D and product development
5. Mergers and acquisitions

### Risk involvement



66% of organizations indicated that risk management has limited involvement ...

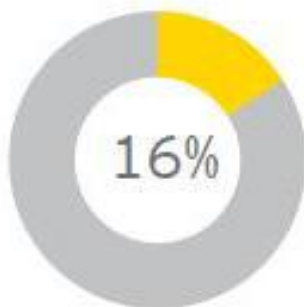


... but 90% expect to be directly involved or providing inputs within the next three years.

### Link risk to the business



97% of organizations have made progress in linking their risk management objectives and business objectives ...



... but only 16% of the 97% consider them to be closely linked today.

### Trends/risk drivers

	Challenges	Opportunities
Cybersecurity	■	
Reputation	■	■
Strategic transactions	■	■
Emerging markets		■
Economic stability	■	
Technology shifts		■
Changing consumer preferences		■
Regulatory compliance	■	





# How do we manage strategy and risk in a VUCA world?

**User adoption**

Adoption rate of new social media and mobile platforms by consumers

**Return on assets**

Performance of assets relative to the cost of acquisition

**Market penetration**

Return on investment (ROI) relative to cost to achieve market penetration

**Talent management**

Achieving expected benefits while managing the impact to people, processes and technology

**Employee fraud**

Deliberate efforts to inappropriately use one's occupation for personal gain

**Information security**

Unauthorized activity occurring on an organization's information systems and infrastructure

**Financial integration**

Integration of two previously disparate systems

**Regulatory compliance**

Adherence to new laws and regulations



**Strategic risks**

**Risks that offer benefits**  
Risks significant to the organization's ability to execute its business strategy and achieve its objectives: strategic risks often focus on the risk opportunity. Eliminating these risks, or transferring them, is therefore not an option: it is a balancing act which requires the organization to evaluate "risk vs. reward."



**Preventable risks**

**Risks that offer negative and/or positive benefits**  
Risks beyond the organization's control: these risks can be unpredictable as they originate outside of the organization and typically have a low rate of occurrence. Organizations should take actions to cost-effectively reduce the likelihood of occurrence and limit negative effects should the risk event occur.

**Risks that offer negative impacts**  
Risks an organization is focused on eliminating, avoiding, mitigating or transferring in a cost-effective manner as they offer no strategic benefits. These types of risks typically result in a negative impact when an event occurs and can be most effectively managed via a controls-based approach.



**External risks**

Broadly, risks can be managed by applying the following three categories<sup>2</sup>:

- ▶ **Strategic** risks that must be accepted as they offer positive benefits
- ▶ **Preventable** risks that should be avoided or mitigated as they offer negative impacts
- ▶ **External** risks that cannot be controlled, offering negative impacts and/or positive benefits

**Competitive shifts**

Actions by competitors to block market penetration

**Geopolitical**

Changes to politics, geography, demography and economics that influence a nation or region

**Natural disasters**

Acts of nature whose impacts are typically significant and result in immediate impact to the organization

**Tax law**

Adherence to new tax codes and regulations

**Key**

- Expansion into new emerging market
- Acquisition or divestiture
- Development of social and mobile platforms
- Transformation of finance function

2. Robert Kaplan and Annette Mikes, "Managing Risks: A New Framework," Harvard Business Review

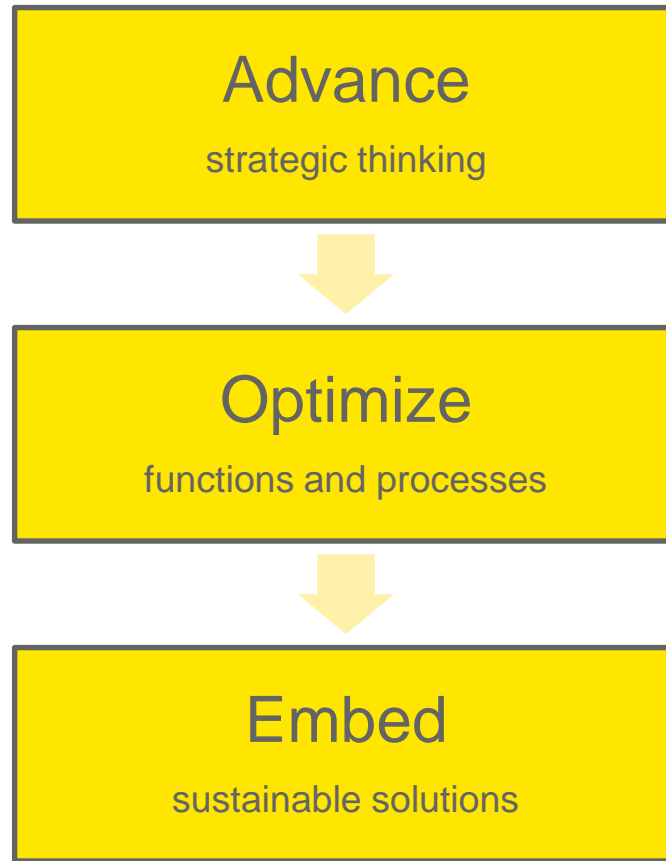
# Example risks associated with example business strategies

Business Strategies	Strategic Risks	Preventable Risks	External Risks
<b>Expansion into new and emerging markets</b>	ROI in new sales and distribution channels	Non-compliance with new legal and regulatory requirements	Government actions to block market penetration or expansion
<b>Acquisition or joint ventures</b>	Asset performance acquired through acquisition	Failure to detect accounting or financial irregularities	Political reform or action blocking M&A transactions
<b>Development of social and mobile platforms</b>	Adoption rate of digital platforms by consumers + change in market share	Disruption to customer interfaces and transactions	Natural disaster impacting IT supporting infrastructure
<b>Transformation of finance and accounting functions</b>	Disruption to business and customer support processes	Changes to existing risk and controls framework	Economic shift requiring cuts to capital expenditure



# Building a risk-aware organization

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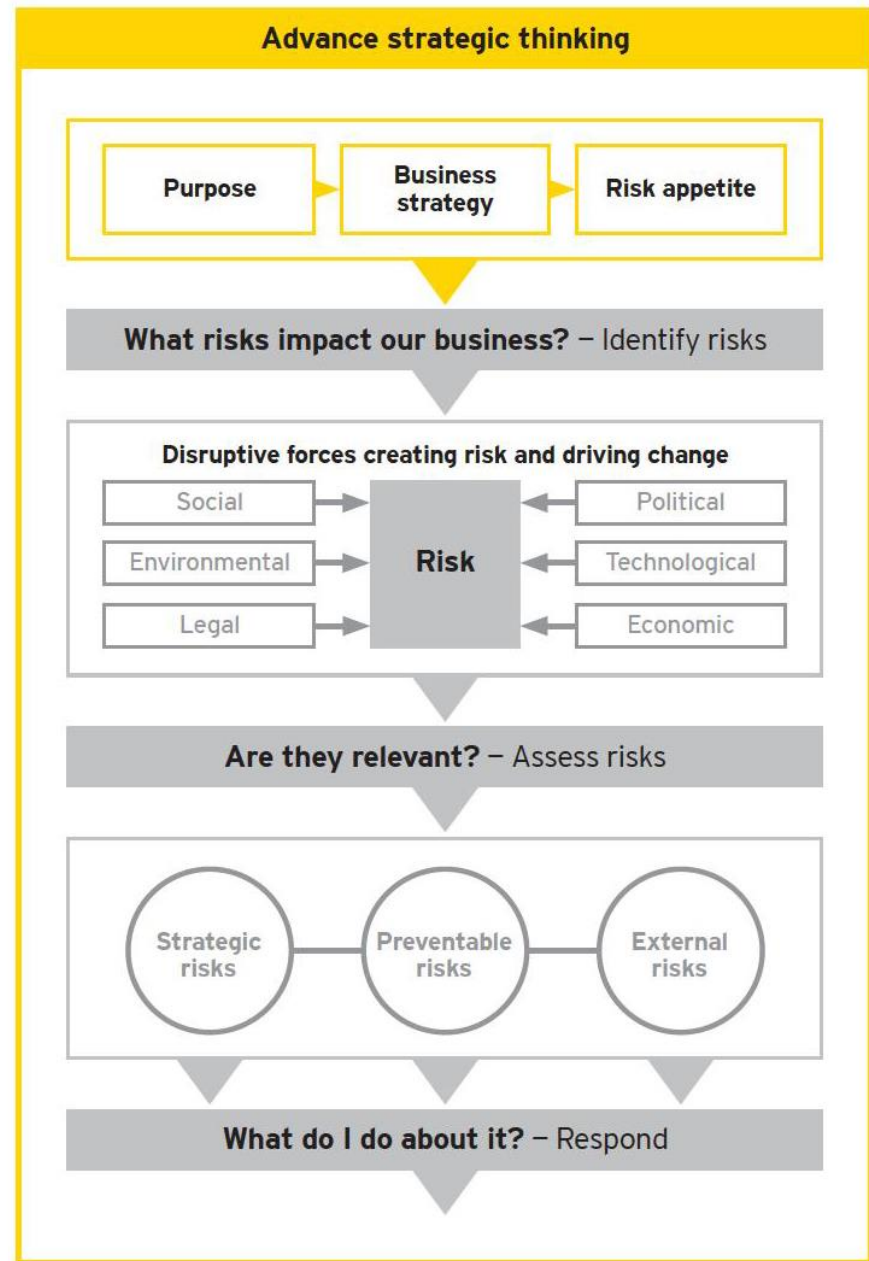
**Advance**  
strategic thinking

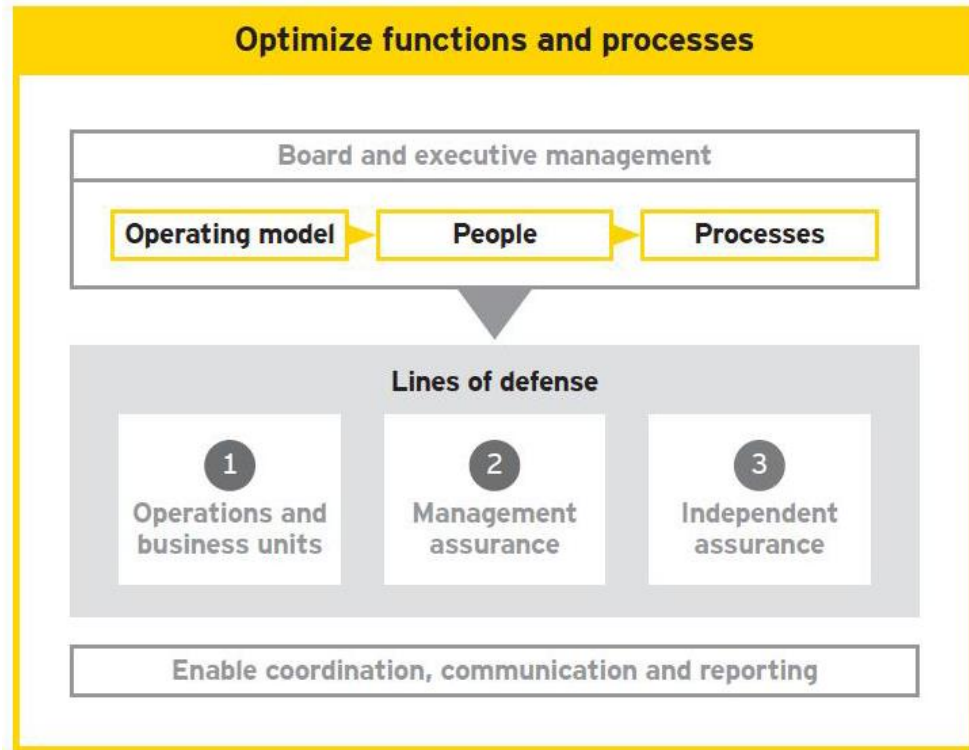
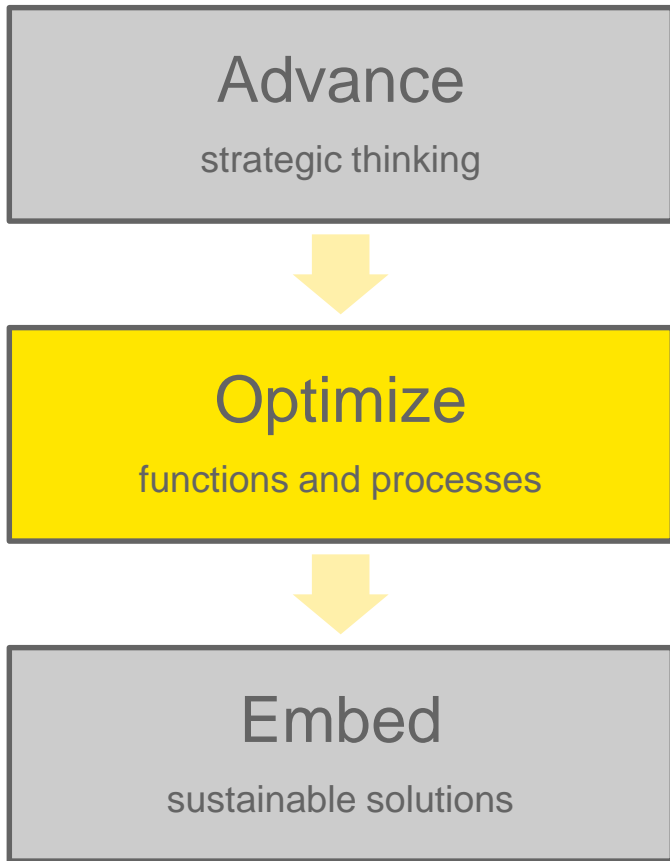


**Optimize**  
functions and processes

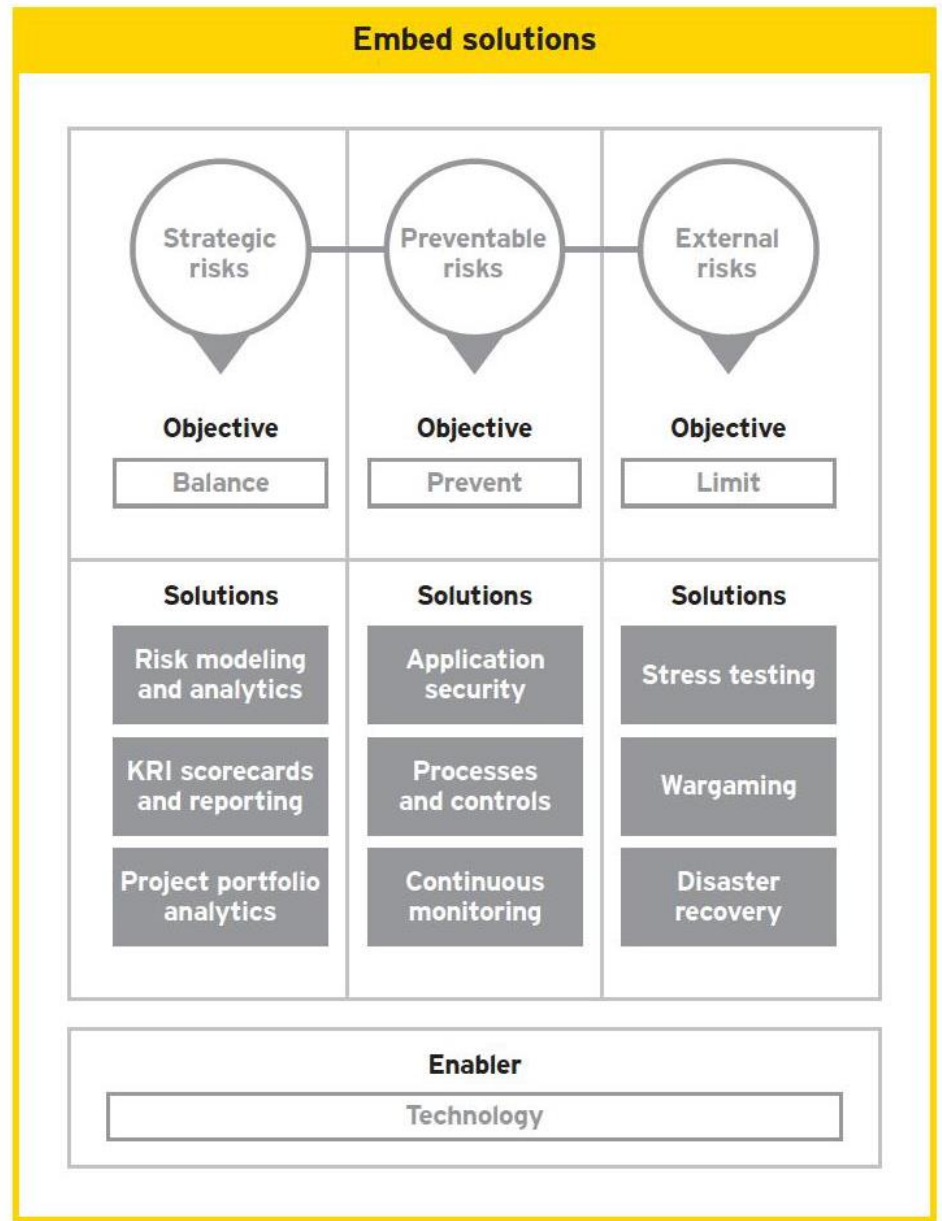
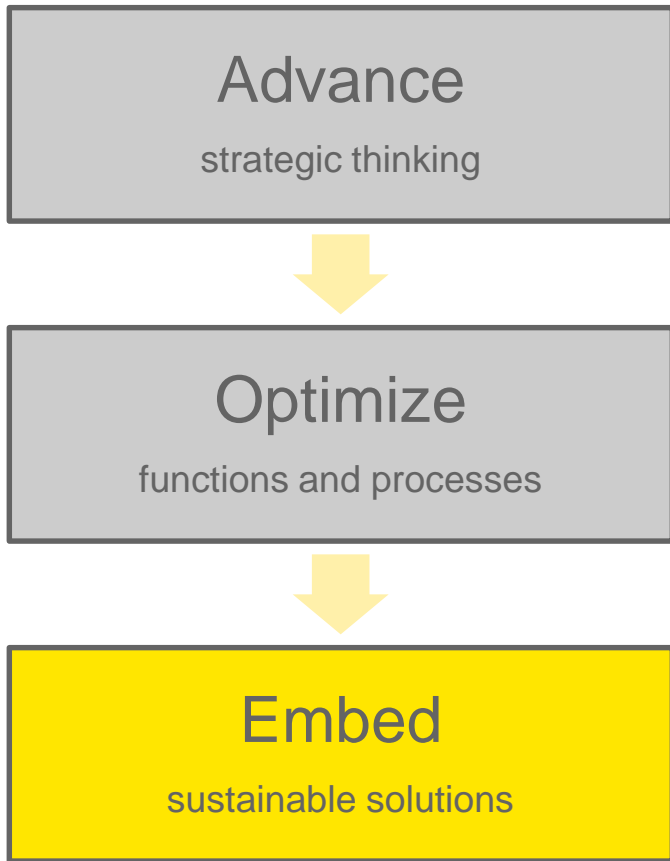


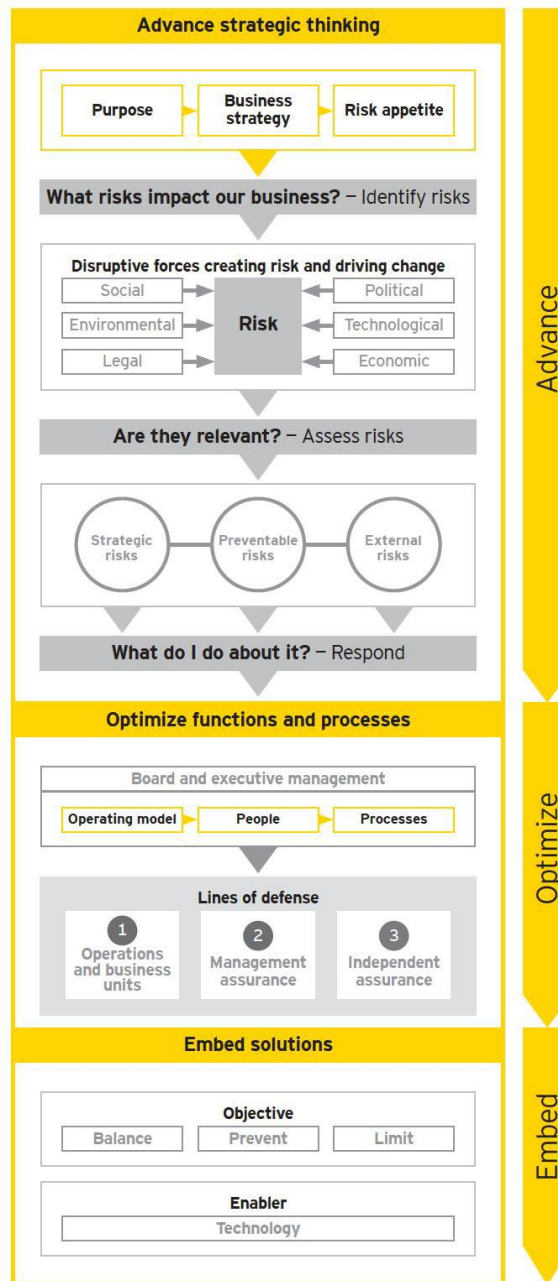
**Embed**  
sustainable solutions









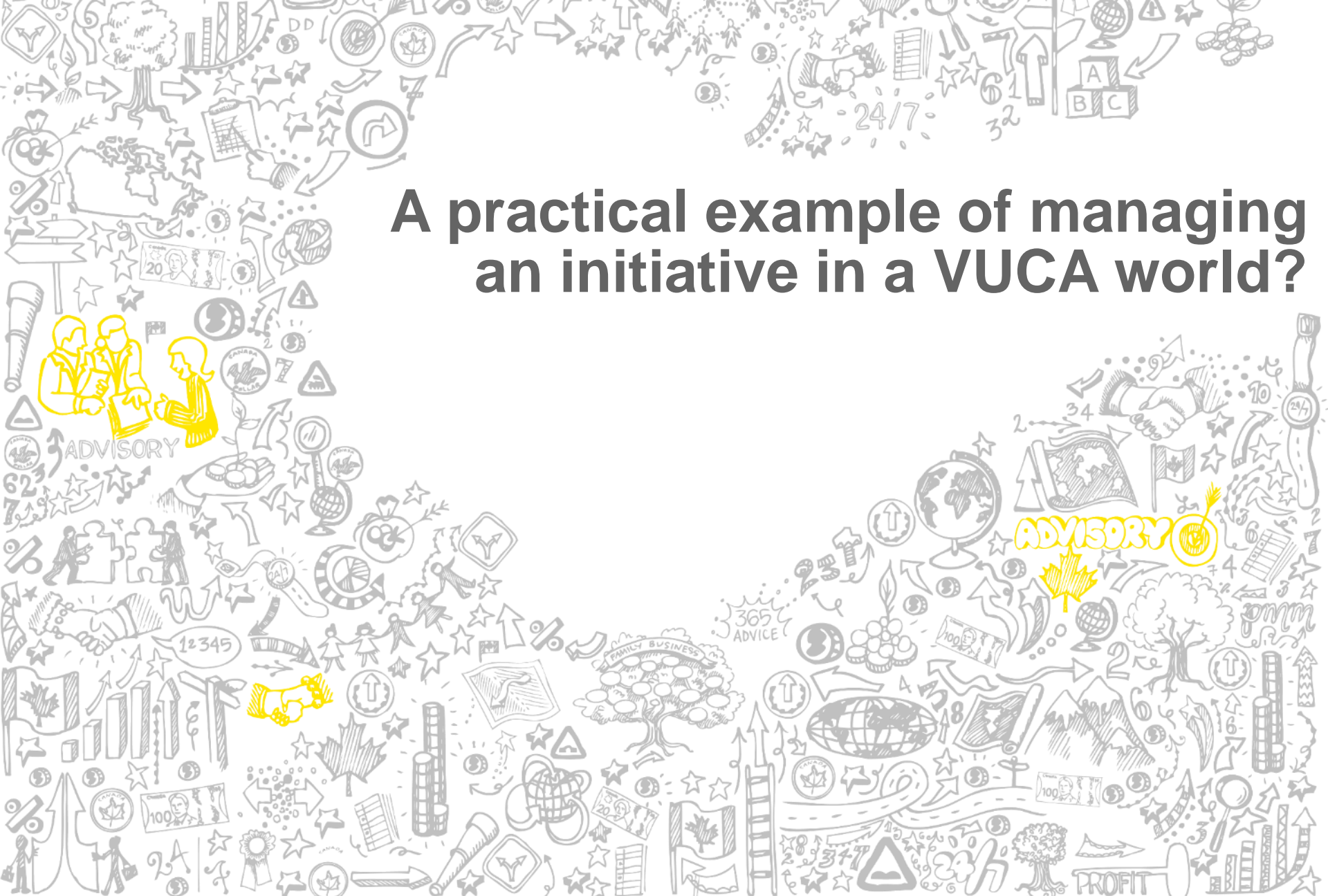


Advance

Optimize

Embed

# A practical example of managing an initiative in a VUCA world?





# Framework to manage VUCA

Example showing the following aspects:

How well can predict the results of your actions?	<h2>Complexity</h2> <p>Explicit understanding of where complexity lies – resource allocation and risk focus on these areas.</p>	<h2>Volatility</h2>
	<h2>Ambiguity</h2> <p>Experimentation and wargames for better understanding and predictability</p>	<h2>Uncertainty</h2> <p>Better and more timely information via continuously updated, real-time/predictive analytics.</p>
	How much do you know about the situation?	

# Case study

## Financial Services Company

# Advance

strategic thinking

### Business Strategy

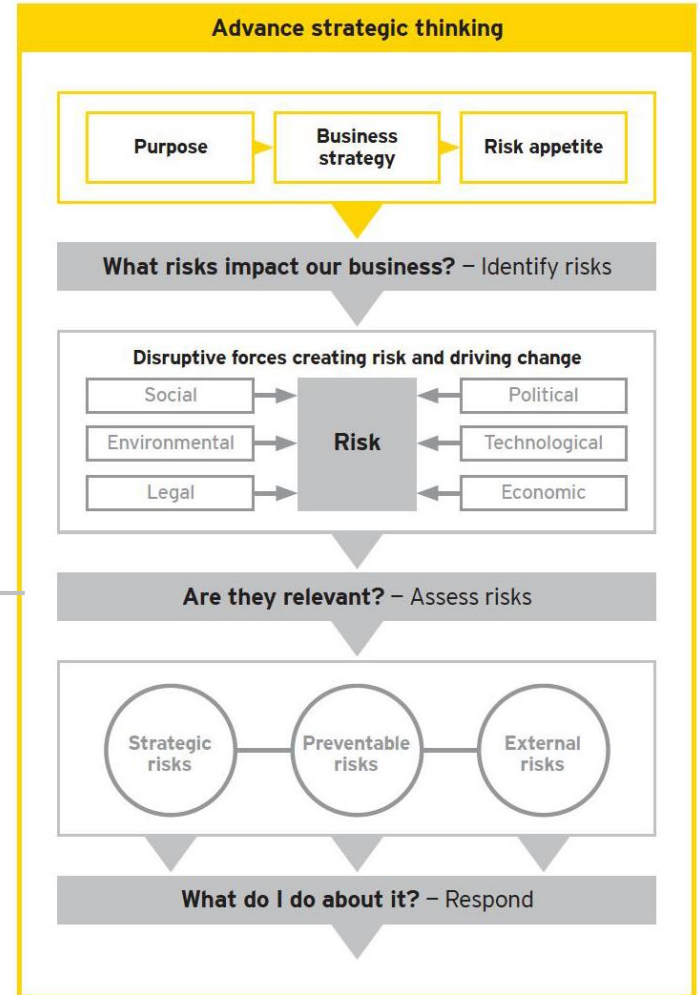
Improve marketing and sales channels through:

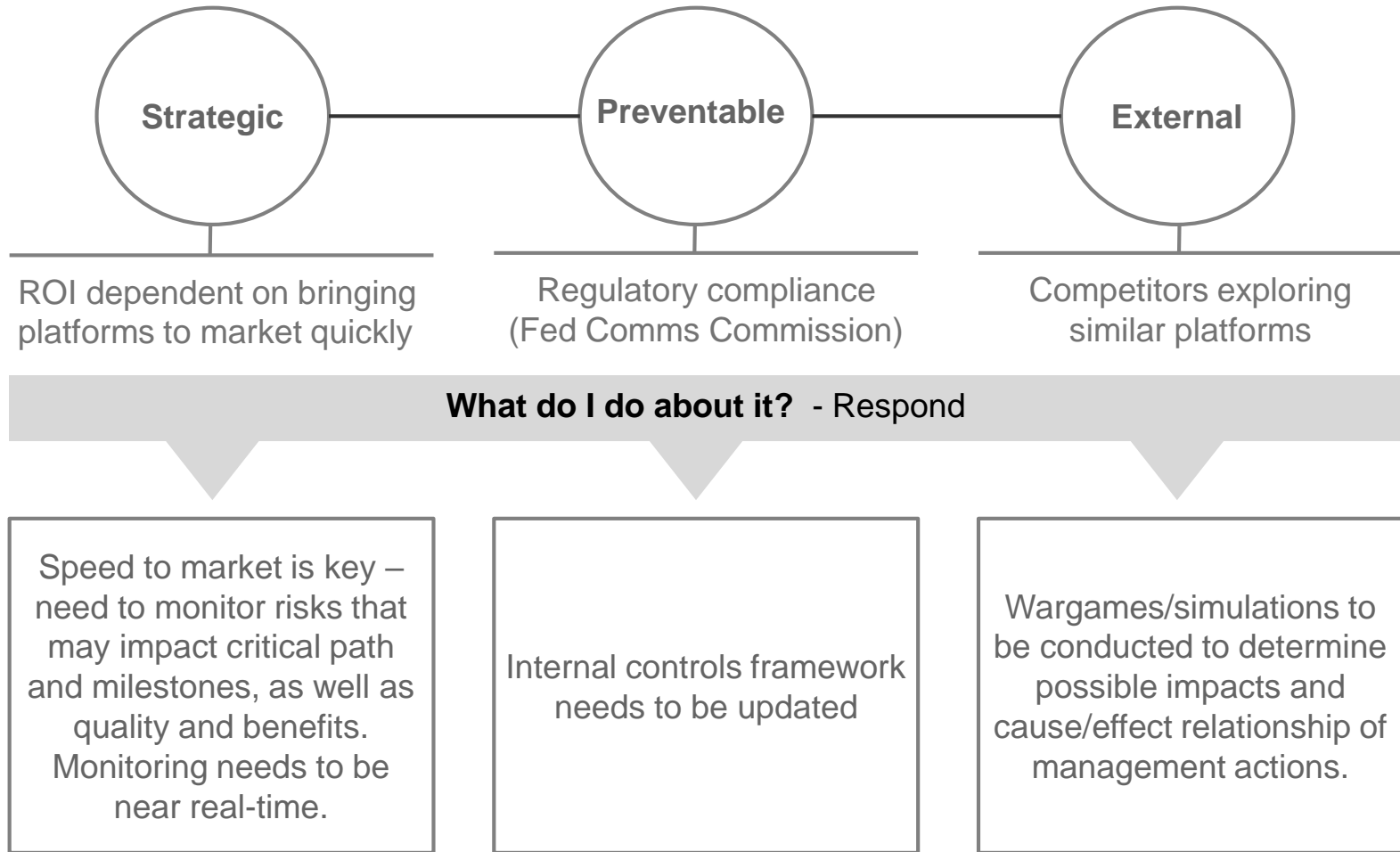
- ▶ Social
- ▶ Digital
- ▶ Mobile

+ Bring products to market faster

### Risk Appetite

Medium





### What do I do about it? - Respond

Speed to market is key – need to monitor risks that may impact critical path and milestones, as well as quality and benefits. Monitoring needs to be near real-time.

- ▶ Complexity Analysis
- ▶ Predictive Risk Analysis
- ▶ Viable (risk-adjusted) project plan

Internal controls framework needs to be updated

Update and optimize internal controls

Embed digital/marketing SMRs into LoD

Wargames/simulations to be conducted to determine possible impacts and cause/effect relationship of management actions.

2<sup>nd</sup> LoD facilitates quarterly, small-group wargames with 1<sup>st</sup> LoD participants

Findings reported to management



# Case study

## Embed sustainable solutions

Speed to market is key – need to monitor risks that may impact critical path and milestones, as well as quality and benefits. Monitoring needs to be near real-time.

- ▶ Complexity Analysis
- ▶ Predictive Risk Analysis
- ▶ Viable (risk-adjusted) project plan

Continuous program risk monitoring – predictive analytics  
Decision priority analysis

Internal controls framework needs to be updated

- Update and optimize internal controls
- Embed digital/marketing SMRs into LoD

Automated, preventative controls – continuous controls monitoring

Wargames/simulations to be conducted to determine possible impacts and cause/effect relationship of management actions.

- 2<sup>nd</sup> LoD facilitates quarterly, small-group wargames with 1<sup>st</sup> LoD participants
- Findings reported to management

Management make strategic adjustments to maximize ROI

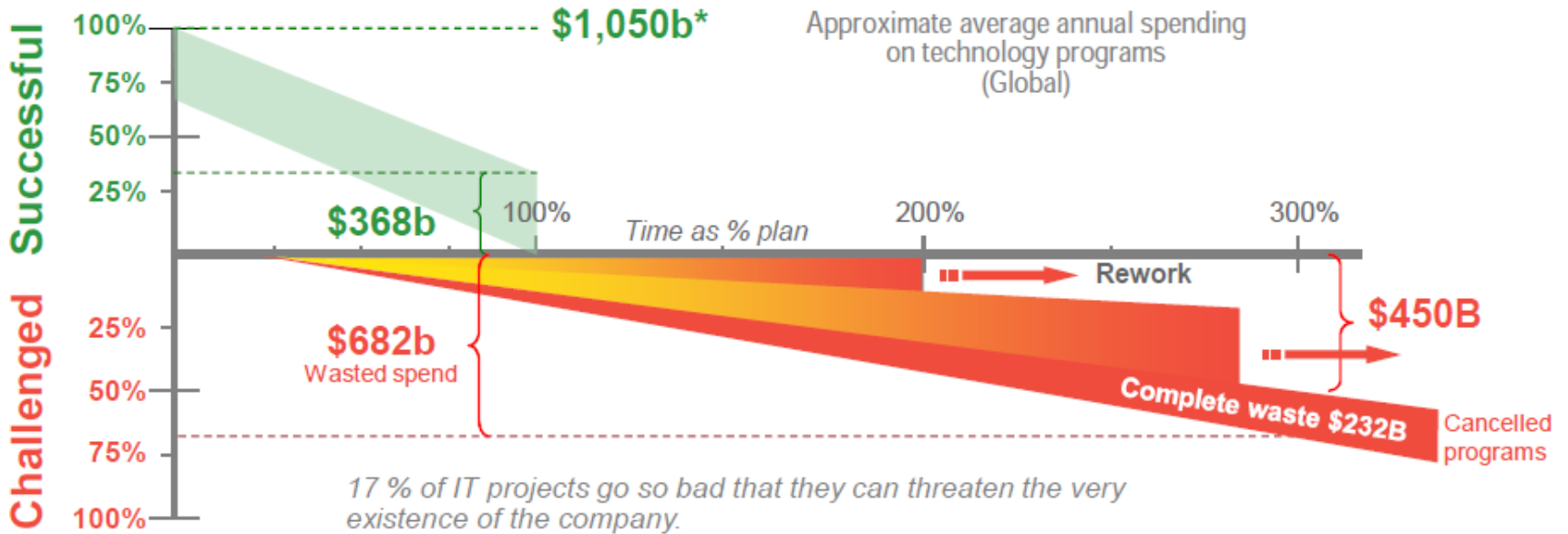


# A deep dive into what is necessary.

# Why did I focus on a project as an example?

Challenged programs lead to significant waste of capital and market competitiveness

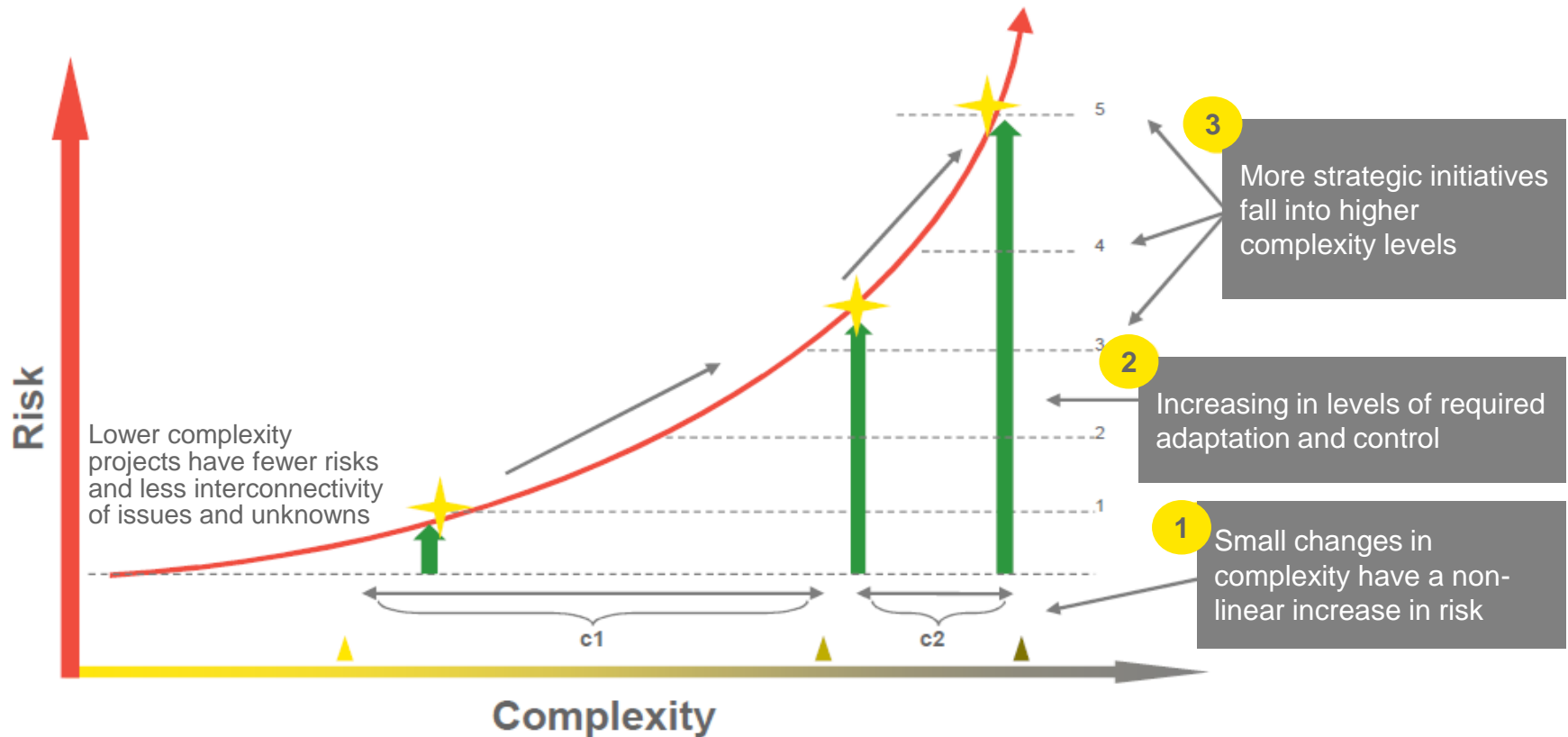
Industry performance in executing complex programs continues to be a **challenge** and is **disappointing** overall.



## Why is program performance not improving?

Sources: National Institute of Science & Technology, Gartner, Forrester, CIO Magazine, The Standish Group, Steven's Institute of Technology, MORI Captains of Industry, EY CBK, Dept. of Trade & Industry. Note: Global spend is between US\$760B and US\$1,333B. The average of US\$1,000B was used and is the basis of the other amounts.

# Risk as a function of complexity



## Why is there complexity?

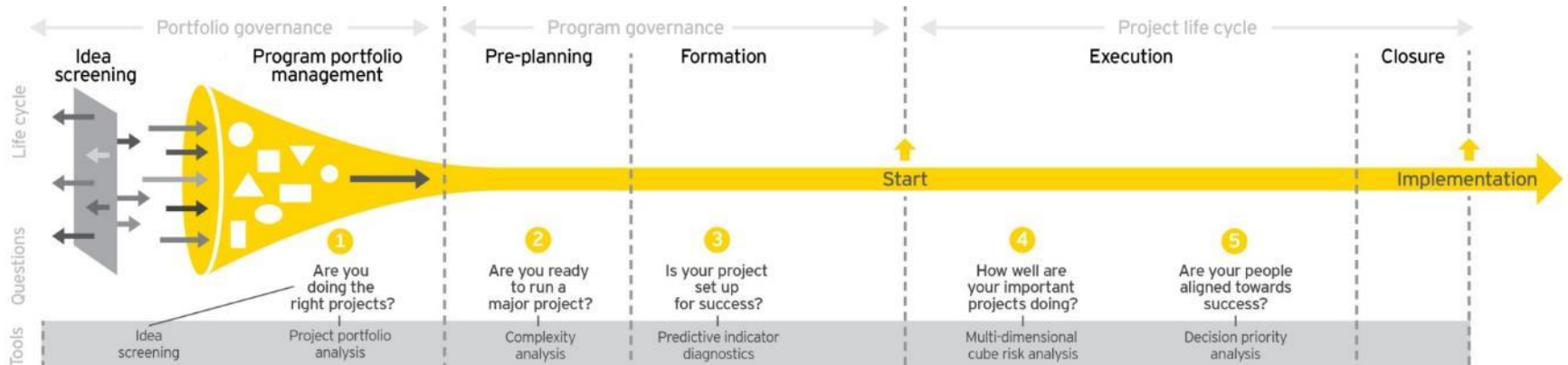
- ▶ Greater uncertainty and risk
- ▶ Relentless speed of change
- ▶ Changing business models, industry convergence and regulatory change

**Understanding complexity is the first step in designing program risk reduction**



# High Level Approach

## The program and project continuum



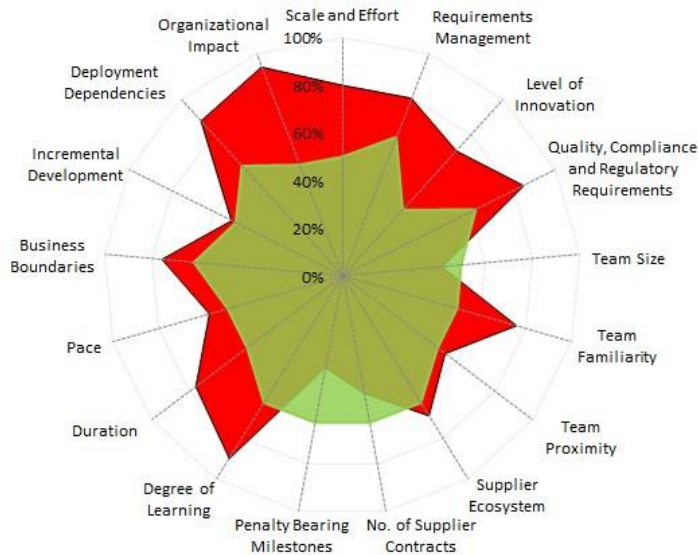
## Challenges

- ✓ Ineffective screening of ideas
- ✓ Investing in the wrong programs
- ✓ Improper risk reward profile
- ✓ Over allocation of critical resources
- ✓ Improper governance
- ✓ Not understand critical aspects of complexity and proper program design
- ✓ Improper match of capabilities to requirements
- ✓ Inadequate planning
- ✓ Starting projects unaware of true risk state
- ✓ Unwarranted optimism
- ✓ False “green” status
- ✓ Distorted view of true performance
- ✓ Addressing symptoms and not root-causes
- ✓ Misaligned decision making
- ✓ Improper reaction to late stage surprises
- ✓ Lack of benefit attainment analysis

# 2. Are you ready to run a major project?

Measuring the degree of inherent and residual risk in the program

## Complexity Analysis



### What it is:

- ▶ The complexity of the project is determined across 17 factors.
- ▶ The organization's and team's capability, maturity and experience is determined.
- ▶ Residual risk is identified where complexity exceeds capability and maturity.

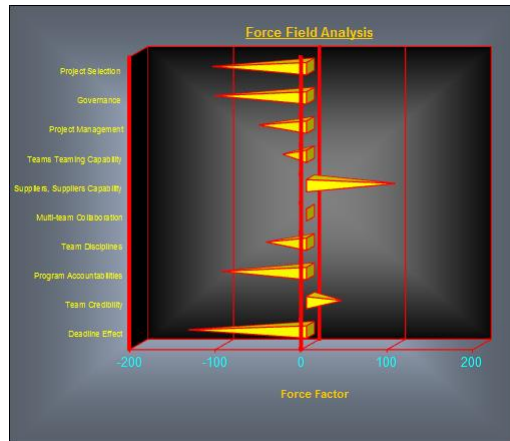
### How it helps:

- ▶ Complexity analysis provides a graphical view of the residual risk of a project. That is, the difference between the complexity of the program (red) and the capability and maturity of the organization (green) to manage a program of that complexity.
- ▶ This allows the organization to target specific adaptation of the governance, controls and processes to mitigate residual risk in those program areas where it exists.
- ▶ If enough of these assessments are done in an organization, systemic residual risk areas can be identified. The organization can then increase its maturity and capability in these areas to increase its project delivery effectiveness across the entire portfolio.

# 3. Is the project setup for success?

Providing a forward-looking, full lifecycle view of risks and potential gaps for the program

## Predictive Risk Analysis



Summary influencing risk factors



### What it is:

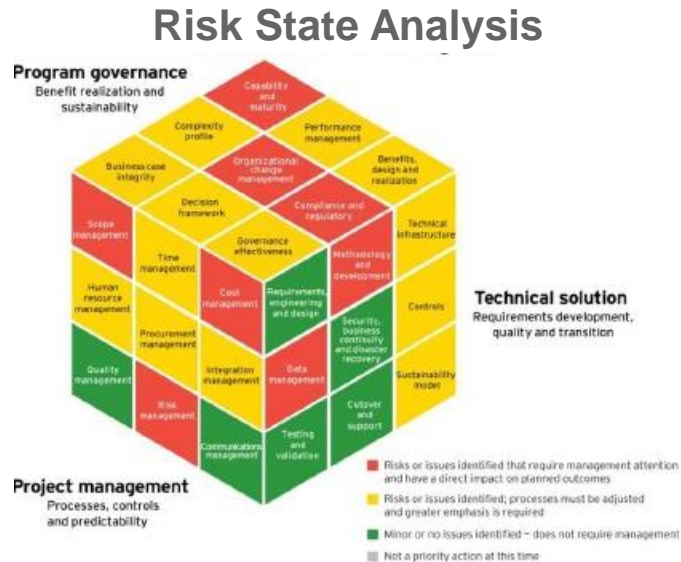
- ▶ 90 risk factors in the project are analyzed across 10 areas covering the entire lifecycle of the project.
- ▶ Areas are analyzed based on the current phase of the project.

### How it helps:

- ▶ Identifies areas where the project team needs to adapt to prevent risks from being introduced into the project, preferably before issues arise.
- ▶ Is able to identify where risks are being created across the project lifecycle, even before the project starts.
- ▶ Allows the identification of systemic areas where teams introduce risk that will allow the organization to make improvements that have a wide ranging impact.

# 4. How well are your important projects doing?

Covering the causes of failure and provide a quantitative underpinning to our conclusions and recommendations



## What it is:

- ▶ A holistic 360 degrees integrated view of the program risk state (not status) across the 3 key domains of Program governance, Project management and Technical solution.

## How it helps:

- ▶ Shows the true risk state of the project from an independent viewpoint, removing bias.
- ▶ Determines what corrective actions will yield the greatest long term benefits.
- ▶ Allows concrete steps to be outlined that have a real impact in improving project success.
- ▶ Helps significantly reduce late-stage surprises.
- ▶ If done across several programs, helps identify areas of systemic risk and organizational capability and maturity gaps. The organization can then target specific improvements that will increase its delivery effectiveness across the entire portfolio.



# 4. How well are your important projects doing?

Determining the probability that milestones will be met

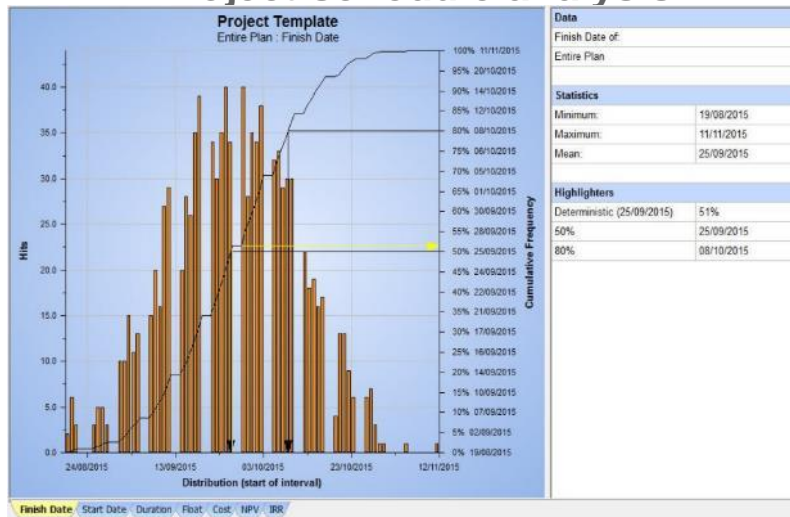
## What it is:

- ▶ Probabilistic schedule analysis
- ▶ Analyze the logic of the project plan across 11 factors.
- ▶ Analyze task status and resourcing of the project.
- ▶ Determine the probability the schedule will complete on the expected end date.

## How it helps:

- ▶ Identifies areas where the logic of the project plan can be improved to increase the accuracy of the schedule.
- ▶ Identifies areas where resourcing or task management can be improved increasing the accuracy of the schedule.
- ▶ Identifies key risks within the schedule.
- ▶ Determines the probability of key milestones (ex. go live date) occurring on the planned date.

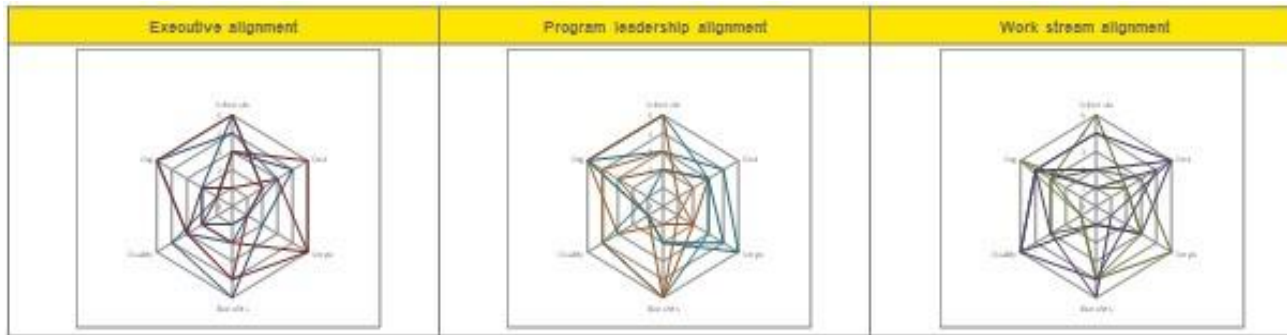
## Project schedule analysis



# 5. Are your people aligned toward success?

Determining if a priority misalignment exists within and across governance tiers that could lead to decision-making disconnects

## Decision Priority Analysis

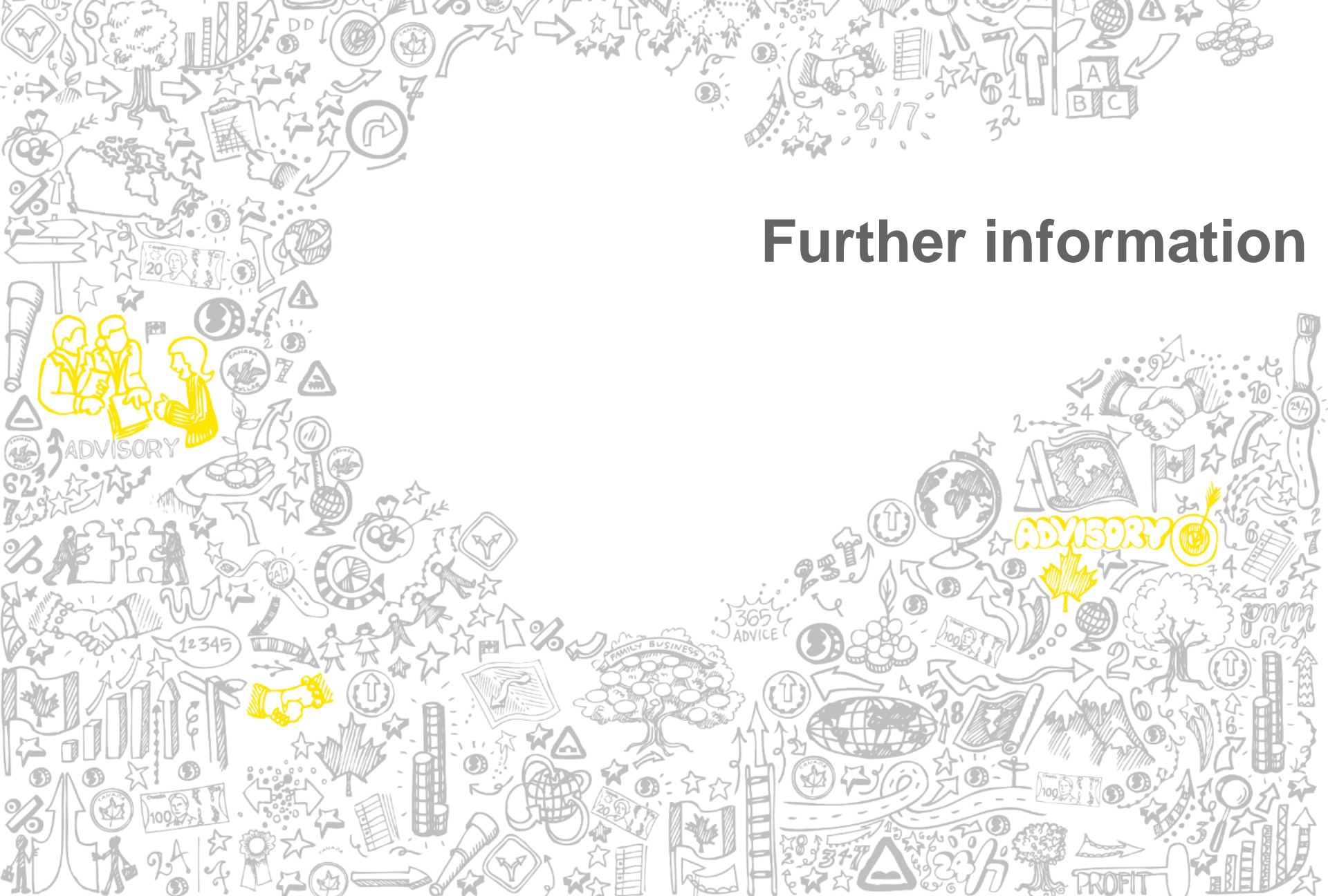


### What it is:

- ▶ Identify the priority of the factors defining project success across executive, project leadership and work stream lead governance tiers.
- ▶ Determines the alignment within each governance tier (horizontal alignment) and between governance tiers (vertical alignment).

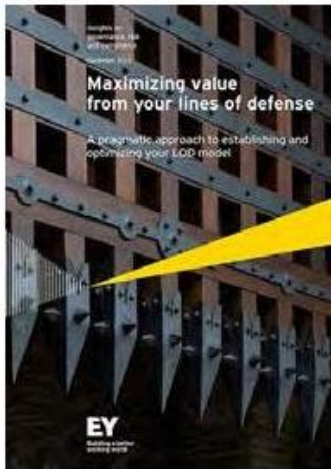
### How it helps:

- ▶ Identifies if decisions will be delayed, revisited or overruled and where frustration may occur.
- ▶ Is able to identify priority misalignment even before the project starts.
- ▶ Identifies if executives and project leadership are aligned on the real definition of project success.



# Further information





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