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ERM: Closing the Strategy Execution Gap

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Presentation Team:
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David Leather, Risk Manager, State University Construction Fund

NYSICA

Team Bios

DUANE LOHN

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Duane Lohn leads the Compliance, Risk, Resilience & ESG Practice at B. Riley Advisory Services. Duane has extensive experience in advising risk, compliance, legal, and audit committee members and board committees on operational risk and resilience, specializing in emergency and crisis planning, business and operational continuity management, data security, and cybersecurity.

Duane focuses on BCM governance, crisis management frameworks, disaster recovery, and emergency and crisis communication tools for a broad portfolio of private, public, and education sector clients around their governance, risk, and compliance initiatives, and supporting their response to disruptions and crises.

He understands the complex but practical relationships among cybersecurity, operational downtime, organizational resilience, and sustaining of long-term organizational reputation through confidence in leadership and oversight decision-making and management. Duane was Practice Leader at Marsh Risk Consulting, KPMG, a founder of Risk Solutions International LLC, a managing director at FTI Consulting, and senior managing director at Ankura Consulting Group. He resides in Scottsdale, AZ.

DAVID LEATHER

State University Construction Fund

Risk Manager

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David Leather (Vice President of NYSICA) leads the Risk Management Unit at the State University Construction Fund and has over 10 years of combined experience in developing an Enterprise Risk Management Program, Internal Controls, Compliance, Accounting, External Auditing, Conducting Risk Assessments, and Internal Auditing.

Prior to joining the State University Construction Fund, he worked at Questar III BOCES performing internal auditing services at School Districts across New York State. In addition, he has prior experience working in the Semiconductor industry (Nanotechnology) as a Lead Research Technician II.

He also has over 14 years of experience in the Real Estate Industry both purchasing and selling Real Estate. David has an MS in Accounting from The College of Saint Rose and a BS in English with Business Administration from the University at Albany.
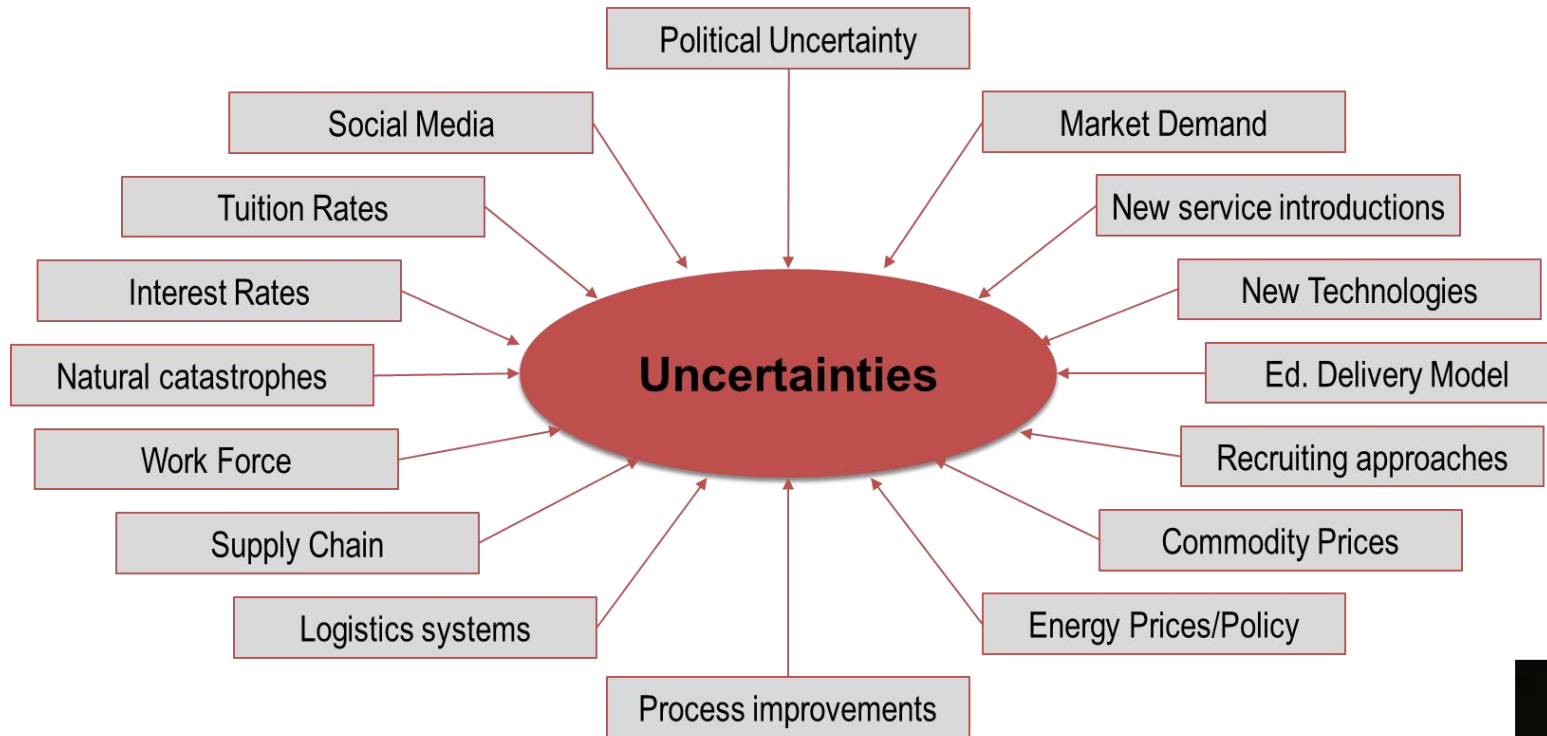
- "Strategic Planning is a comprehensive process for determining what a business should become and how it can best achieve that goal. It appraises the full potential of a business and explicitly links the business' to the actions and resources required to achieve them. Strategic planning offers a systematic process to ask and answer the most critical questions confronting the management team - especially large irrevocable resource commitment decisions."

  Bain & Company

- Strategy Execution Gap Defined: the difference between a formulated strategies' projected benefits, and the actual benefits delivered.

Understanding the Strategy Execution Gap

- Why the gap?

Diagram with central red oval labeled **Uncertainties** surrounded by factors:
Political Uncertainty, Social Media, Tuition Rates, Interest Rates, Natural catastrophes, Work Force, Supply Chain, Logistics systems, Process improvements, Energy Prices/Policy, Commodity Prices, Recruiting approaches, Ed. Delivery Model, New Technologies, New service introductions, Market Demand

- How big is the gap?

Understanding the Strategy Execution Gap is REAL!

- Research indicates that companies on average deliver only 63% of the financial performance their strategies promise. Even worse, the causes of this strategy-to-performance gap are all but invisible to top management.

    "Turning Great Strategy into Great Performance" (HBR)

- Even the best-laid strategies of any organization are useless without proper implementation.

    "Why Good Strategies Fail: Lesson for the C-suite" (The Economist Intelligence Unit)

- Huge volume of literature out there devoted to strategy and strategic planning, so why are companies failing to implement successfully?

    "Bridging the Gap" (Strategy Magazine)

- 82% of Fortune 500 CEOs feel their organization did an effective job of strategic planning. However, only 14% of those same CEOs indicated that their organization did an effective job of implementing the strategy.

    (Forbes Magazine)

But Why is the Gap SOOO Big?

- Multiyear results rarely meet projections

- A lot of value is lost in translation (i.e. no one clearly knows how effective a strategy is)

- Performance bottlenecks in departments are frequently invisible to top management

- The strategy-to-performance gap fosters a culture of underperformance (lack of performance becomes acceptable and the norm)

- Lack of integrating an understanding and planning for the risks and uncertainties that will be encountered along the way

Rearview vs. Cockpit View of Uncertainty
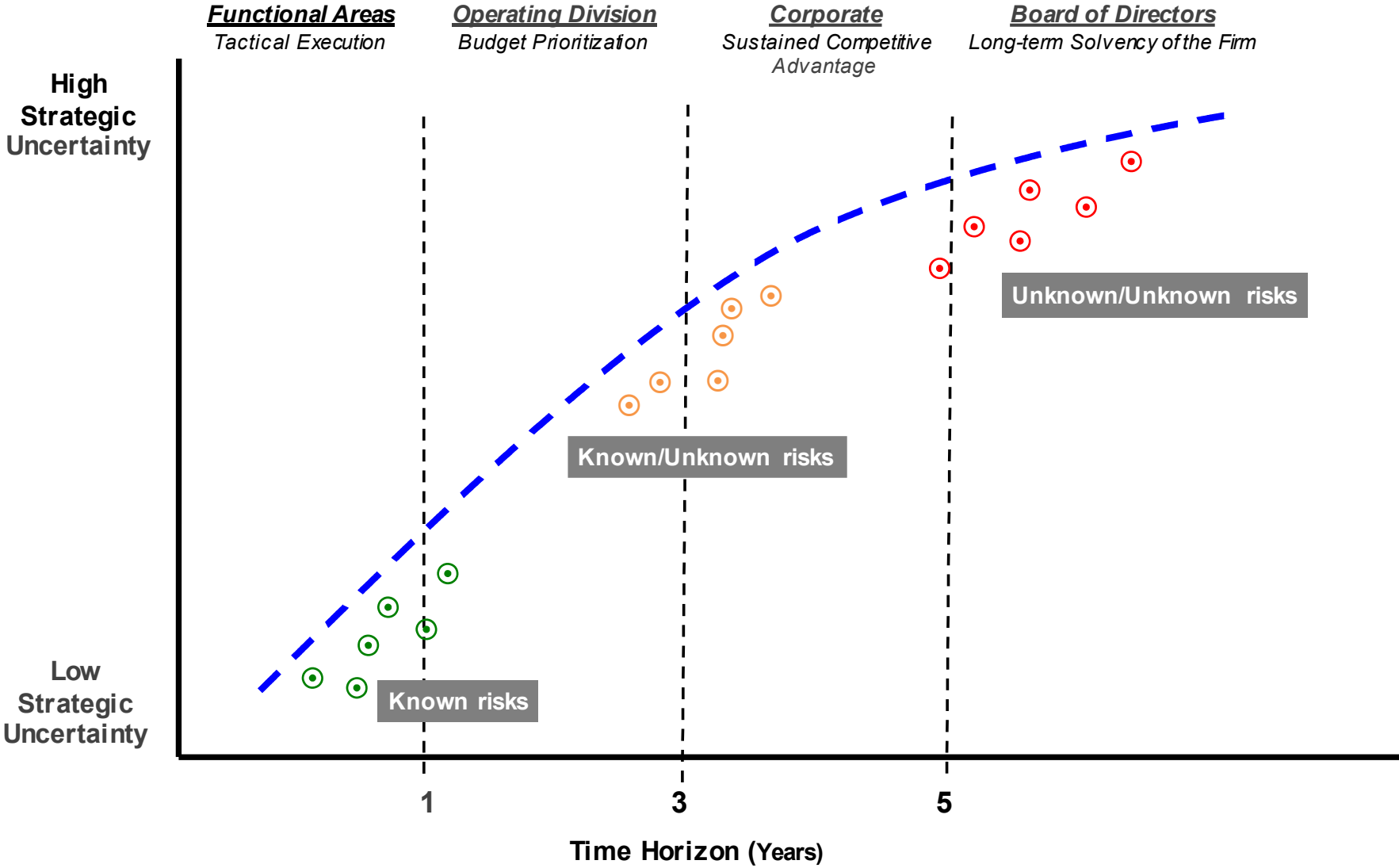
Learning ERM for Value Creation

ERM programs must enable and inform meaningful action to avoid losing value over time

ERM as a Risk Reporter

Focus: Risk Identification, Risk Assessment and Reporting

Accomplishments:
Risk Appetite
Risk Map and Register,
ERM Charter,
Timeliness and Relevance of Risk Info

ERM as an Action Enabler

Accomplishments:
Executive Dashboard, Value Maps, Seat at the Table, Seen as Business Partner with Measurable ROI

ERM Continues as Risk Reporter

Challenges:
Declining Contribution to Value Creation, Maintaining Momentum, Engagement and Support, Timeliness and Relevance of Risk Information

ERM Value (vertical axis, Low to High)

Time and ERM Maturity (horizontal axis, Low to High)

Who is SUCF?

For almost 60 years, the State University Construction Fund (SUCF) has been responsible for designing, constructing, acquiring and improving the State University of New York (SUNY's) buildings and infrastructure.

- We contract and manage over $1B of projects annually

- We operate at:

  - All 32 SUNY Campuses

  - 3 SUNY Teaching Hospitals

Pharmacy School - BINGHAMTON UNIVERSITY

**Jacobs School of Medicine & Biomedical Sciences
UNIVERSITY AT BUFFALO**
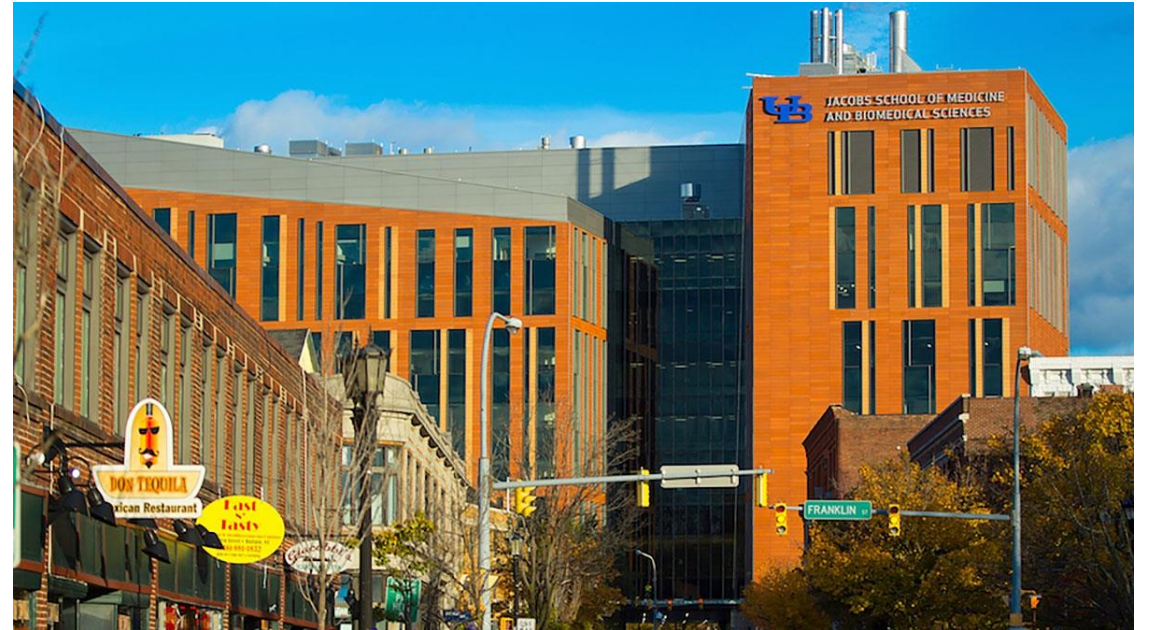
Examples of Projects

ETEC Project - SUNY Albany Exterior and 1st Floor Lobby

Replace Roof Dance Building at SUNY Purchase College

Exterior Plaza work at Geneseo

ERM Planning & Early Stages

- June 2020 – ERM Internal Workgroup was Established

- January 2021 – Request for Proposals were issued. We received 11 proposals and performed interviews on prospective Consultant's

- September 2021 – Selected our Consultant

- October 2021 – Project Kickoff to begin Implementing ERM

ERM Implementation Timeline

Objective	Description	Completion
Preplanning Stages	Provided information to the Consultant about our organization (i.e., risk assessments, internals controls, mission statement, about the organization, organizational chart, etc.).	October/November 2021
Risk Identification	Conducted a self-assessment of risks. Interviewed/discussed with Fund leadership and staff.	December 2021
Risk Analysis - Quantifying Risks	Once risks were identified, we analyzed/quantified the risk to determine if it meets the criteria for reporting. Developed a risk scoring methodology for assessing risks.	January 2022
Developed Risk Mitigation Action Plans	We identified risk owners for each unit within the organization. We then developed a risk mitigation plans to continuously monitor and reduce areas of risk.	June 2022
Designed Risk Reporting	In the process of developing reports that can be used to update leadership and the Board of Trustees on ERM.	Summer 2022
Developed Procedures	Developed ongoing procedures to be used to update ERM risk assessments	Fall 2022
Resource Allocation	Identified Fund staff responsible for periodically maintaining and updating risks associated with ERM.	Summer 2022
Trained Fund Staff	Developed training for management and staff on ERM and the impact to the work environment.	Fall 2022
Maintain the ERM Program	Ongoing review, analysis, and reporting. Continued periodic workgroup meetings and discussions to improve on the ERM Program.	Ongoing

Project Objectives

The objectives for this project included the following to help the Fund successfully achieve its mission:

- *Formulated the risk management strategy;*
- *Developed a roadmap for implementing the initial risk management strategy;*
- *Developed the Fund's ERM Charter and Risk Appetite Statement;*
- *Conducted a formal risk identification, assessment, and mitigation process;*
- *Reviewed and prepared the Fund's ERM reports to the Board of Trustees;*
- *Delivered ERM educational training to team members and key stakeholders; and*
- *Implemented recommendations on the best structure for the Fund to govern ERM internally.*

Project Approach

1 — **Project Kickoff** — 3 – 4 weeks
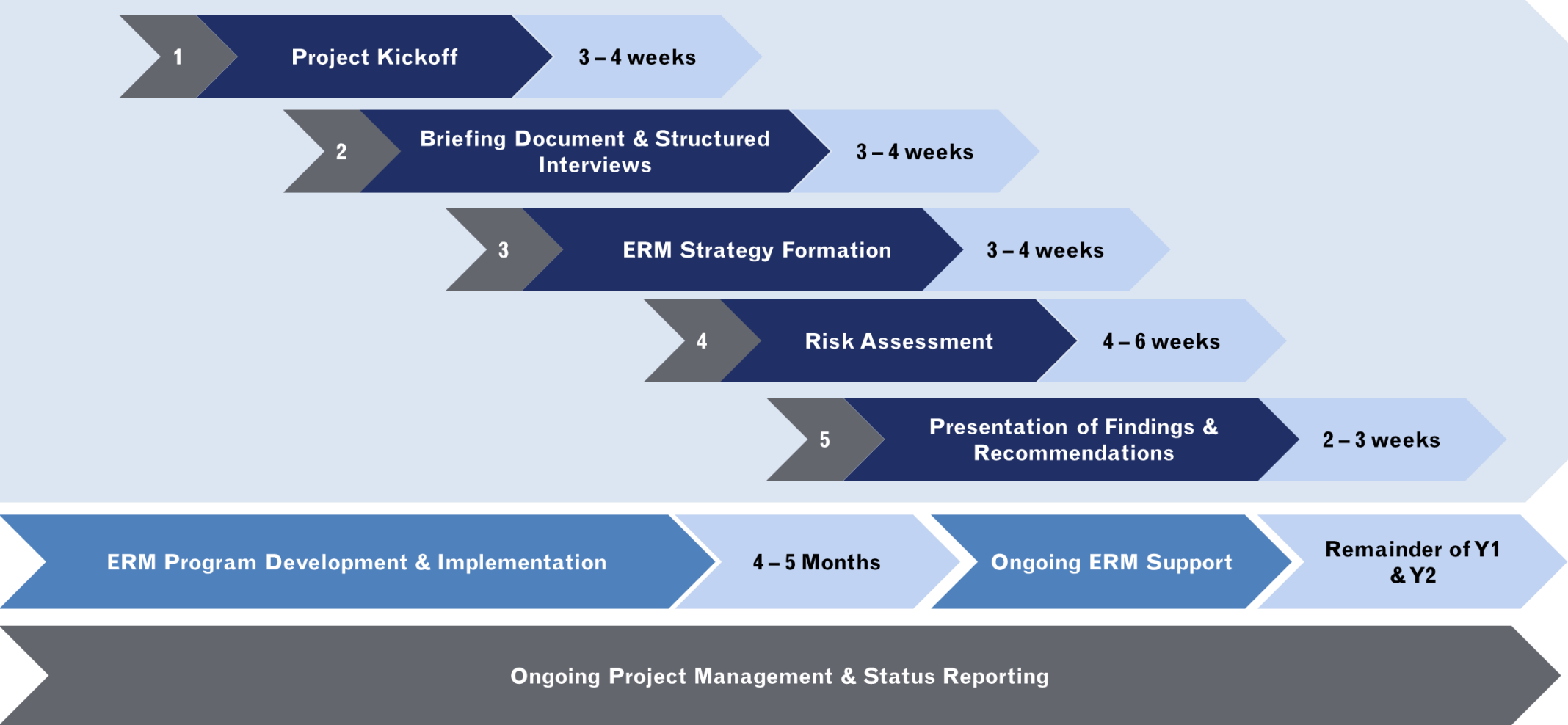
2 — **Briefing Document & Structured Interviews** — 3 – 4 weeks

3 — **ERM Strategy Formation** — 3 – 4 weeks

4 — **Risk Assessment** — 4 – 6 weeks

5 — **Presentation of Findings & Recommendations** — 2 – 3 weeks

ERM Program Development & Implementation — 4 – 5 Months — **Ongoing ERM Support** — Remainder of Y1 & Y2

Ongoing Project Management & Status Reporting

Briefing document provided participants with an overview of the project and expected roles

Interview topics included:

- *Perceptions on key risk exposures to the Fund*
- *Provided insights into the current risk management and mitigation activities*

Results provided information that was used to complete the Fund's

- *Risk Appetite Statement*
- *Risk Scoring Criteria*
- *ERM Gap Analysis*
- *Risk Register*

Sample Risk Appetite Statement

Our risk management philosophy is that at XYZ we will take risks to build and grow our business, but only if those risks:

- Fit our business strategy;
- Can be understood and managed;
- Do not expose the enterprise to any significant single loss events;
- Do not expose our employees or customers to any harm;
- Do not bet the firm on any single acquisition, business line or product offering; and
- Do not risk harm to our brand.

Our defined areas of risk appetite include:

- Financial: 10 - 20% of profit
- Operational: Loss of use of critical software system for 3 - 5 days OR 10 - 20% impact to OR
- HSE: Major safety incident with extensive injuries or a fatality OR major environmental release with limited long-term effects
- Compliance: Major breach of DOT regulatory requirements OR Regulatory permits put in jeopardy OR Civil, governmental, and/or criminal penalties likely
- Human Capital: Short term inability to attract staff & high turnover across organization
- Customer Satisfaction: Accumulation of operational incidents leading to customer service levels dropping between 90 - 95%

- *We completed a gap analysis of the Fund's risk management activities*

- *Assessed and evaluated* existing practices, policies and procedures against:
  - Common ERM practices and
  - The Fund's desired future state for ERM

- *Analysis helped establish a basis for:*
  - Developing an ERM implementation Roadmap centered on the following structure:
    - Risk organization and governance structure.
    - Risk appetite, tolerance, and limits.
    - Risk metrics and measurement.
    - Risk management process, procedures, and controls; and
    - Risk management monitoring, reporting, and communication.

- *Creation of action plans, organizational structure, training needs and a project timeline for the implementation of the Fund's ERM process*

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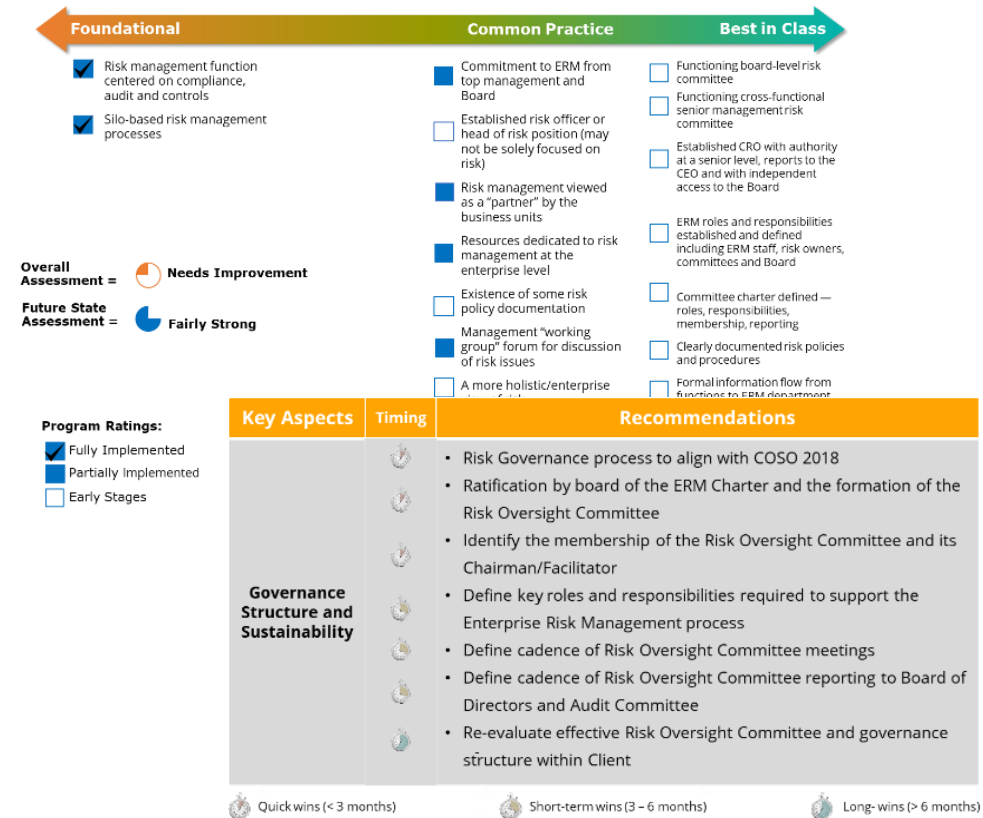
Risk Assessment

We had conducted on-site interviews with 23 key staff throughout the Fund and identified an initial list of **28 items** that helped identify organizational risk. In our risk assessment exercise, a few key risks were prioritized through that process. A few examples were:

- Human Capital – Retention & Recruitment of Talent, Succession Planning

- Operational – Project Related Risks

- Financial – Funding Risks

- Operational – Workload, Supply Chain Disruption, Skilled Labor Shortage

- Technology – Cyber Related Risks, Technology Dependency

Development of Risk Mitigation Plans

- We developed a Risk Mitigation Template tool to support our Risk Owners to:

  - Prioritize risk mitigations items

  - Drill down on mitigation actions and develop KPIs to measure risk improvement

  - Quantify necessary resources for implementing actions

  - Report plans to ERM Steering Committee
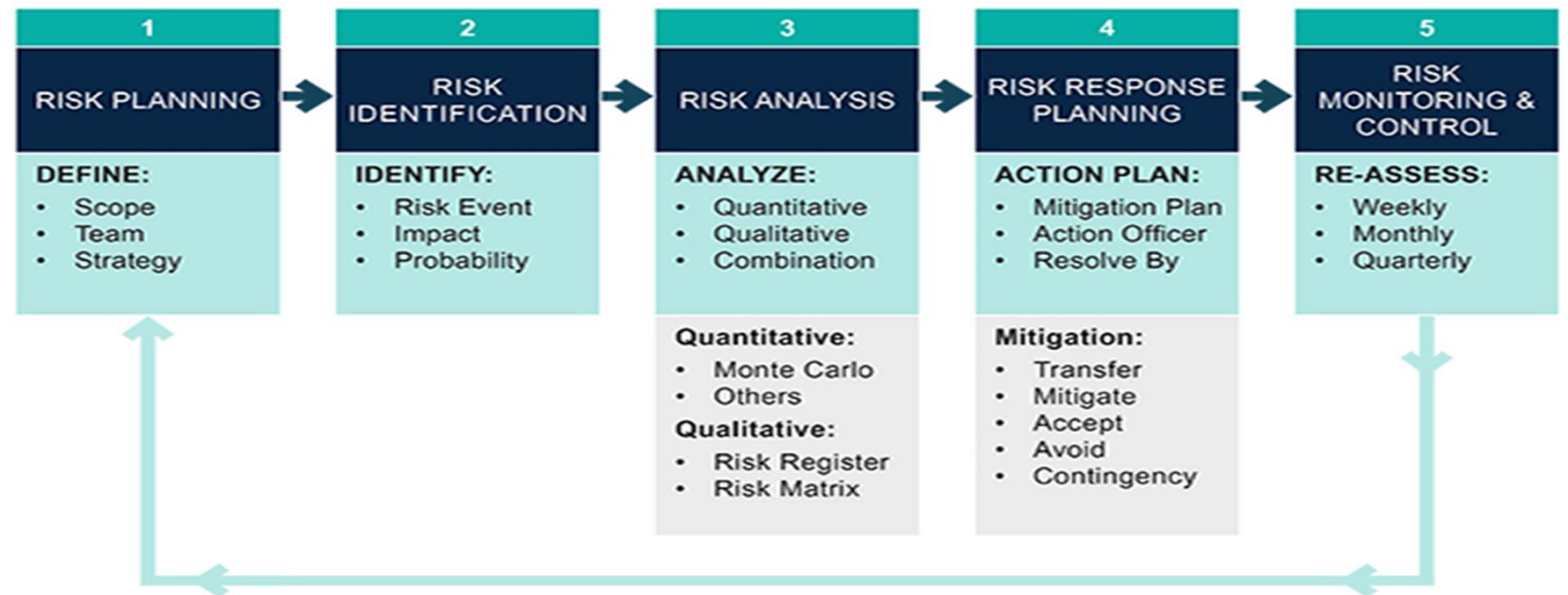
ERM Maturity and Roadmap

- ERM Strategy review identified gaps in current and desired state of ERM maturity

- Our ERM Roadmap highlighted specific action items for us to take to close the gaps

- These remain underway

Best-In-Class Criteria	Overall Current Rating	Future State Rating 2 years
Risk Organization and Governance Structure	◔	◕
Risk Appetite, Tolerance and Limits	◔	◕
Risk Metrics and Measurement	◔	◐
Risk Management Process, Procedures and Controls	◔	◐
Risk Monitoring, Reporting and Communication	◔	◕

KEY:

- ● Strong
- ◕ Fairly Strong
- ◐ Satisfactory
- ◔ Needs Improvement
- ○ No Evidence

ERM Milestones Achieved

- ✓ Hired an ERM Program Manager

- ✓ Developed a Risk Appetite Statement

- ✓ Developed an ERM Framework

- ✓ Created an ERM Steering Committee for Oversight

- ✓ Identified Risk Owners

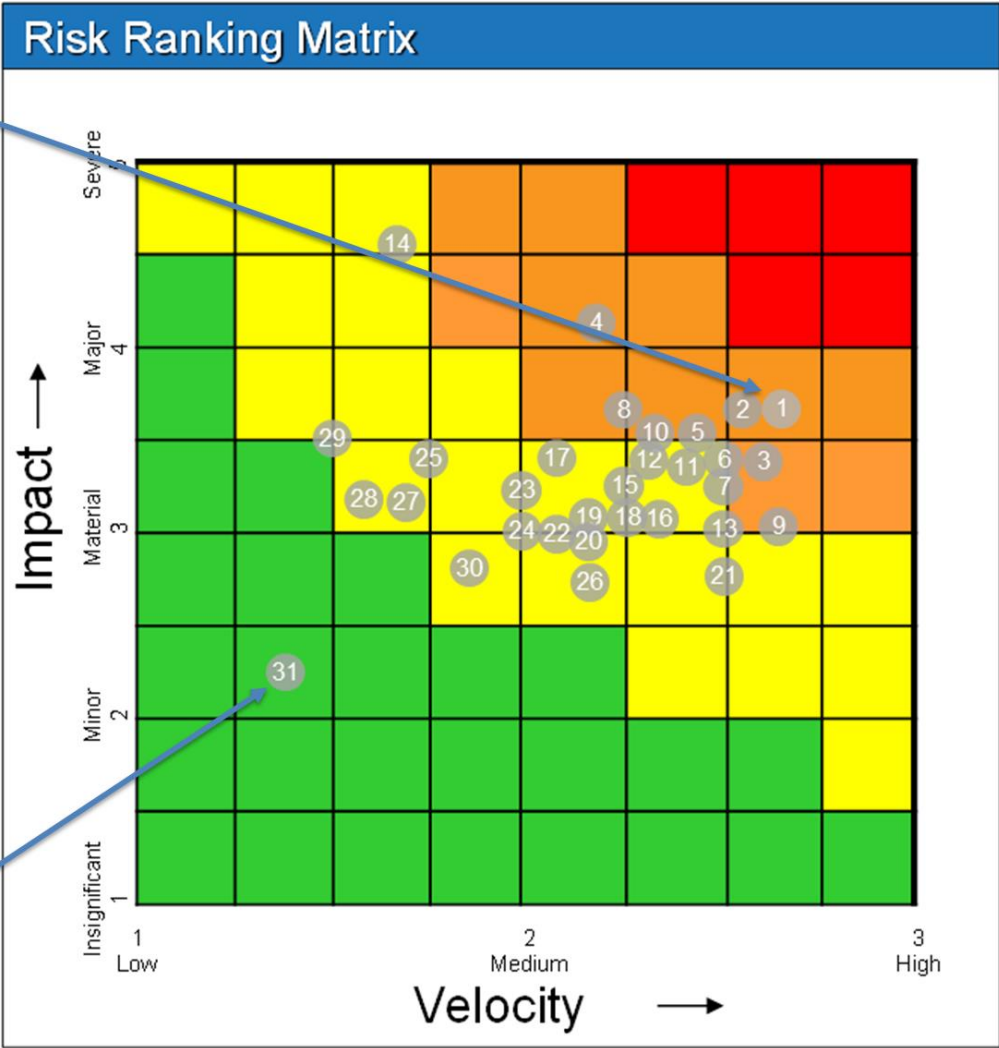- ✓ Re-evaluated risk by sending out an employee feedback survey

Ongoing Maintenance

- ✓ Continue to develop risk reporting to Steering Committee

- ✓ Continue to develop procedures to update ERM risk assessments

- ✓ Continue to develop and provide training for overall education and awareness

- ✓ Continue to work with risk owners on updating risk mitigation plans

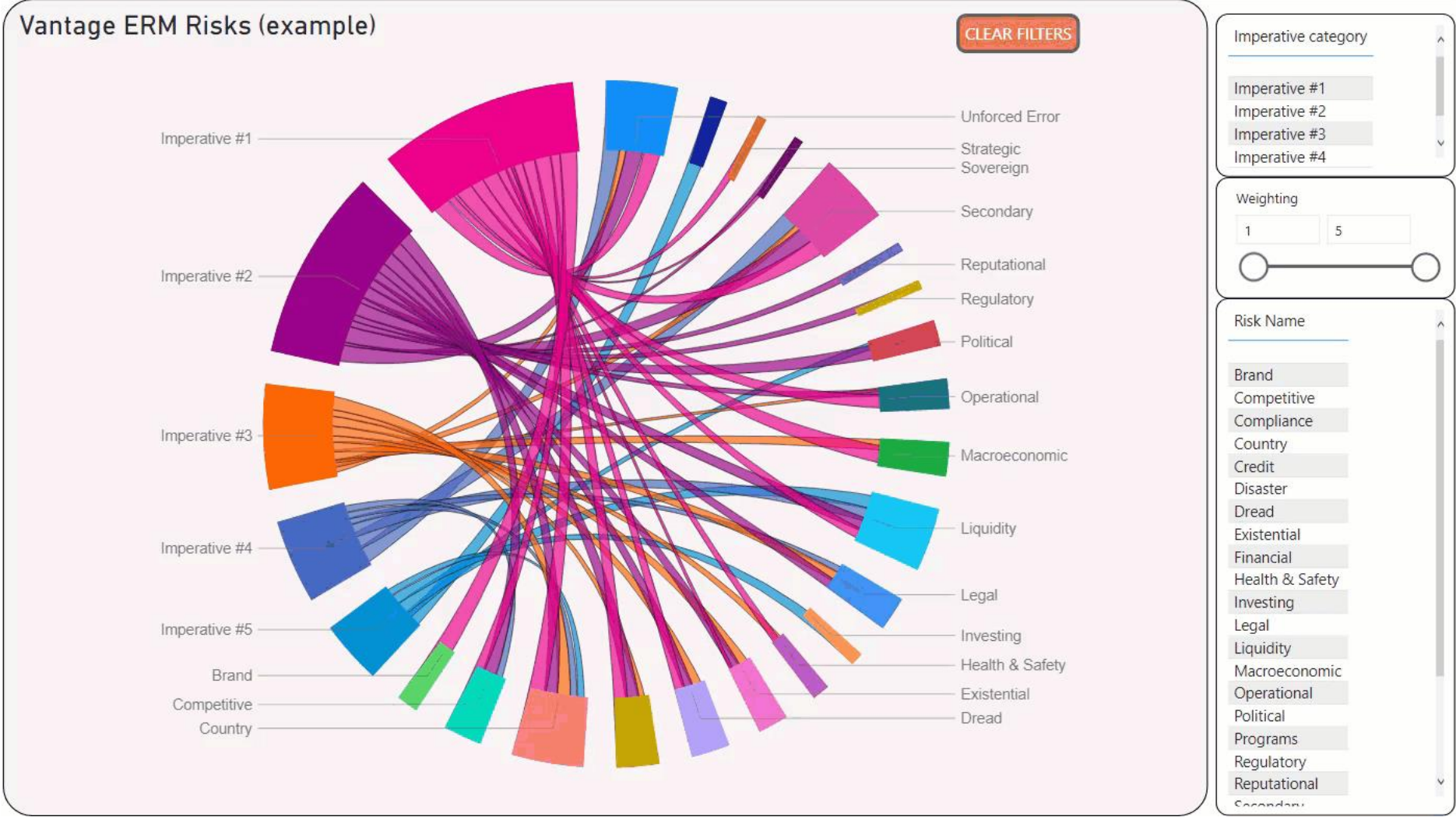# Things Don't Always Work the 1st Time

- Seek to understand why your message isn't resonating:

  - Right vs effective – organizational change management

  - Not reading the room / not knowing the audience?

  - Too much detail?

  - Not easy to digest?

  - Taking too long to get to the point?

  - Executives have differing levels of comfort with technology

Vantage ERM Risks (example)

Closing Thoughts

- Help leadership understand the strategy execution gap is real

- Knowing your known-unknowns helps you close the gap

- Calibrate real-time --- strategy never sleeps

- Adjust to your audience

- Don't wait for an invitation…earn a seat at the table

This Has Been…
Closing the Strategy Execution Gap

Thank You!
Questions?