Index

A
Airlines and airports, 126, 127
Analyze step of SOAR process
conducting analysis, 80–84
data, validating, 84–88
described, 169
elements of, 80
element examples, 149–157, 159–161
metrics, validating, 89, 90
reports, 90–93
and SOAR process, 95, 110, 111
AS/NZS 4360, 122
At-risk concept
described, 22, 23
distribution and sample size, 24
distribution location, 30–32
distribution of outcomes of equal
probability, 23, 24
distribution of outcomes of
unequal probability, 24–30
At-risk measure, 33–37
Basel II, 122
Black box recorder for SOAR, 116
Business processes. See Processes

C
Causal loop diagrams, 59, 60, 139,
145, 169
Cause-and-effect analysis
and balanced scorecard, 118
and setting metrics, 55–59, 111,
132, 139, 141–145, 169
and SOAR process, 47, 159
Cause-and-effect diagrams, 59, 145
Certification, 45, 130
Committee of Sponsoring
Organizations (COSO), 118,
119, 122
Competitors, 15, 17
Compliance
AS/NZS 4360, 122
Basel II, 122
risk management compared, 117
Sarbanes-Oxley Act, 121, 122
Confidence levels, 82, 106,
107, 115
Corporate governance, 18

173
Correlation, 60–62, 75, 76, 85, 89, 90, 95, 169
Customers, 15, 16

D
Dashboard
reports, 90–93
SOAR dashboard, 112–116, 131–132
Data
calculating, 75
gathering, 72–75
quality of, 73, 74
and reports, 90–92. See also Reports
validating, 84–88, 93, 95
Distribution. See Probability distribution
Documentation
data validation, 86–88
rationale for decisions, 97
Drivers of risk. See Risk drivers

E
Early warning indicators
EWIs), 52
Effect-and-cause analysis, 55
Enterprise, defined, 1
Enterprise risk management
and balanced scorecard, 118
and COSO framework, 118, 119
defined, 1, 11–13
office. See Enterprise risk management office
officers, 130
probability concepts, need for understanding, 101
Six Sigma, 117
Enterprise risk management office,
implementation of SOAR methodology, 129–132
officers, 130
and responsibility for SOAR process, 96, 163
role of, 101
and SOAR methodology, 95
Events
identifying, importance of, 4
importance of to SOAR process, 9
and outcomes, 2, 9

F
Financial objectives, 14, 15, 66
Forecast value
and analyze step, 161
and react step, 101–106, 110, 161, 162
and statistics, 35, 37
and trend lines, 81
and trigger levels, 78, 79
and validating data, 85–88, 93
Future values
and react step of SOAR process, 100–106

G
General Electric Company (GE), 124, 125
Governance, 18
Graphs, importance of, 160, 161
**H**
Historical data, 139, 140, 142
Historical simulation analysis, 100, 101, 168
Human behavior, 107–110
Human resources, 18, 19, 45

**I**
Inherent risk, 8, 9, 28, 75, 125, 167

**K**
Key risk indicators (KRIs), 52, 98, 132, 133

**L**
Lagging indicators, 53
Leading indicators, 53, 144

**M**
Maker/checker approach to validation, 85
Management
defined, 10, 11
team, 19
Market objectives, 15–18, 66
Maximum, 33
Mean, 33–35
Metrics
analyzing, 85
and categorizing strategic objectives, 13
classification, 50–54, 132, 133
corporate governance objectives, 18
customer objectives, 16
financial objectives, 14, 15, 66
human resources objectives, 19
management team objectives, 19
market objectives, 15–18, 66
measurement scale, 67
operational objectives, 18–20, 66
partner objectives, 17
process objectives, 20
purpose of measurement, 49, 50
regulator objectives, 18
risk drivers, 52, 53, 55, 60–63, 66, 69, 71
setting. **See** Set step of SOAR process
statement of financial performance, objectives, 15
statement of financial position, objectives, 14
for strategic objectives, 30, 48, 51, 52, 61, 70. **See also** Set step of SOAR process; Strategic objectives
supplier objectives, 16
system of measurement, 67–69
systems objectives, 20
target values, 66–71, 95, 139, 150
validation of selection of, 89, 90
Minimum, 32
Mode, 33, 35
Monte Carlo simulation, 22, 99
Morgan, J. P., 22, 38
Observe step of SOAR process described, 169
example, 148, 149, 158
frequency of observation, 77, 78
observation methods, 72–76
recording observations, 76, 77
and SOAR process, 95, 110, 111
triggers, 78, 79
Operational objectives, 18–20, 66
Outcomes
defined, 9
distribution of possible outcomes. See Probability distribution
and events, 2, 9
identifying, importance of, 4
and purpose of SOAR process, 163
and risk controls, 5, 7–9
and risk drivers, 5–7

Partners, 15, 17
Probability distribution
and confidence levels, 106, 107
and decisions in daily life, 125, 126
distribution location, 30–32
graphs, use of, 160, 161
of metric value, 83, 84
of outcomes, 165, 166
of outcomes of equal probability, 23, 24
of outcomes of unequal probability, 24–30
and sample size, 24
shifting the distribution, 124–128
Process flow charts, 60–62, 145, 146
Processes, 19, 20
React step of SOAR process
described, 170
example, 157–162
human behavior management, 107–110
importance of, 94, 95
and management response to data, 96, 97
and management role, 94, 95
measures, reacting to, 97–105
rationale for decisions, documenting, 97
responsibility for, 96
and SOAR process, 95, 110, 111
Regression analysis, 62, 139, 146
Regulations
AS/NZS 4360, 122
Basel II, 122
risk management compared, 117
Sarbanes–Oxley Act, 121, 122
Regulators, 15, 17, 18
Reports
analysis step, 90–93
purpose of, 92
sample, 154–157
and SOAR process, 95, 96
Residual risk, 8, 9, 166, 167
Risk
appetite/aversion, 108–110
controls. See Risk controls
defining, 1–4
drivers. See Risk drivers
events. See Events
and human behavior, 107–110
inherent, 8, 9, 28, 75, 125, 167
management policy, 122, 123
outcomes. See Outcomes
residual, 8, 9, 166, 167
and SOAR process, 4, 5
Risk controls
and correlation between metrics, 89, 90, 95, 169
and inherent risk, 8, 9, 75, 125, 167
metrics for, 51, 53–55, 60–63, 66, 69, 71, 132, 133
and outcomes, 4, 5, 7–9
and risk, 2
self-assessment, 75, 76
Risk drivers
controls distinguished, 5
correlation, 60, 85, 89, 90, 95, 169
metrics for, 52, 53, 55, 60–63, 66, 69, 71, 132–134, 139–148
and outcomes, 4–7, 9
and risk, 2
self-assessment, 75, 76
Risk management policy, 122, 123
Risk mitigation. See Risk controls
Risk universe, 2, 4, 63
Ruckelshaus, William, 127, 128
Self-assessment, 75, 76
Sensitivity analysis, 62, 63, 146, 149
Set step of SOAR process
causal loop diagrams, use of in
setting metrics, 59, 60
cause-and-effect analysis, use of,
55–59, 132
cause-and-effect diagrams, use of
in setting metrics, 59
described, 169
element, 135–148, 158
measurement, purpose of, 49, 50
metrics, classifying, 50–54, 132,
133
metrics, examples of for objective
classes, 66
process flow charts, use of in
setting metrics, 60–62
regression analysis, use of in
setting metrics, 62
scenario analysis, use of in setting
metrics, 63–65
sensitivity analysis, use of in
setting metrics, 62, 63
and SOAR process, 95, 110, 111
strategic objectives, metrics for,
30, 48, 51, 52, 61, 70,
132, 133
target values for metrics, setting,
66–71, 95, 139, 150
trigger values, 95, 139, 142
Six Sigma, 117
Skew, 33
SMART (specific measurable,
actionable, realistic, time-
bound) objectives, 39, 42, 43,
48, 51, 54
SOAR dashboard, 112–116, 131, 132

SOAR methodology (Strategic Objectives At Risk), 163, 164
and at-risk measurement approach, 38
certification, 45, 130
components of, 129
consistency in applying, importance of, 45
and defining risk, 2
events, 9
execution resources (enterprise risk management office), 44–46
FAQs, 165–170
and identifying controls, 7, 8
ownership, 45
SOAR process as component of, 45, 46. See also SOAR process (Set Observe Analyze React)
and stating risks, 4, 5
and strategic objectives, 12, 38, 39–44, 46. See also Strategic objectives
SOAR process (Set Observe Analyze React), 163
analyze step. See Analyze step of SOAR process
element, 135–162
flow diagram, 60, 61, 159
as management process, 95
observe step. See Observe step of SOAR process
overview, 46, 47, 95, 96
react step. See React step of SOAR process
set step. See Set step of SOAR process
steps, summary of, 95, 110, 111, 132
Statement of financial performance (profit and loss statement), 15
Statement of financial position (balance sheet), 14
Statistical measures
at-risk measure, 33–37
basic measures, 32, 33
Strategic objectives. See also SOAR methodology (Strategic Objectives At Risk)
categorizing, 13, 20
and dashboard dials, 113
financial objectives, 14, 15, 66
interdependence of objectives, 20, 21
market objectives, 15–18, 66
metrics, 51, 52, 54, 55, 132, 133
metrics, correlation of, 60, 75, 85, 89, 90, 95, 169
operational objectives, 18–20, 66
owners of, need for understanding probability concepts, 101
owners of, responsibility for
SOAR process, 96
as part of SOAR methodology, 39, 46
and setting metrics, 30
SMART statements, 39, 42, 43, 48, 51, 54
SOAR example, 135–162
statements, examples of, 39–44
Strategy maps, 56–59, 107, 108, 118
Suppliers, 15, 16
Systems, 20

T
Target values, 66–71, 95, 139, 150
Technology, 130–132
Trend lines, 81–84, 99, 137, 138, 151, 152
Trigger values, 78, 79, 95, 139, 142
Two-eyes approach to validation, 85

V
Value-at-risk, 22, 38

W
Welch, Jack, 124, 125
What-if analysis, 63. See also Scenario analysis
Why, why, why? analysis, 55, 56, 58, 132, 139, 142–145, 169. See also Cause-and-effect analysis