Connecting Risk to Strategy: An Intro to Enterprise Risk Management

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2026 NC Risk Management Conference
April 16, 2026

Agenda

01 Addressing What ERM is and Why Relevant to State Government

02 Using Strategic Lens to Identify Risks

03 Managing and Monitoring Risks

State Government Leadership Works Hard Every Day

Critical Operations and New Initiatives → Enhance Mission and Purpose of Agency/Entity

Does So in World of Growing Uncertainty

Politics and Elections in USA

Uncertainties in Funding Policies

Shifting Views about Role of Government

Cyber Threats & Terrorism

Rising Operating Costs

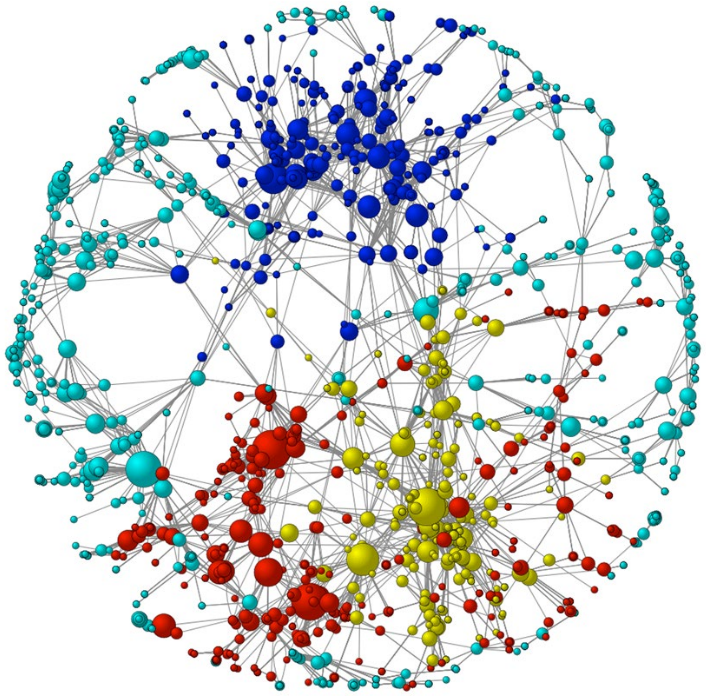
Evolving Societal Views

Unexpected Regulatory Policy Changes

Global Unrest and War

Talent – Attraction and Retention

Advances in Technologies & AI



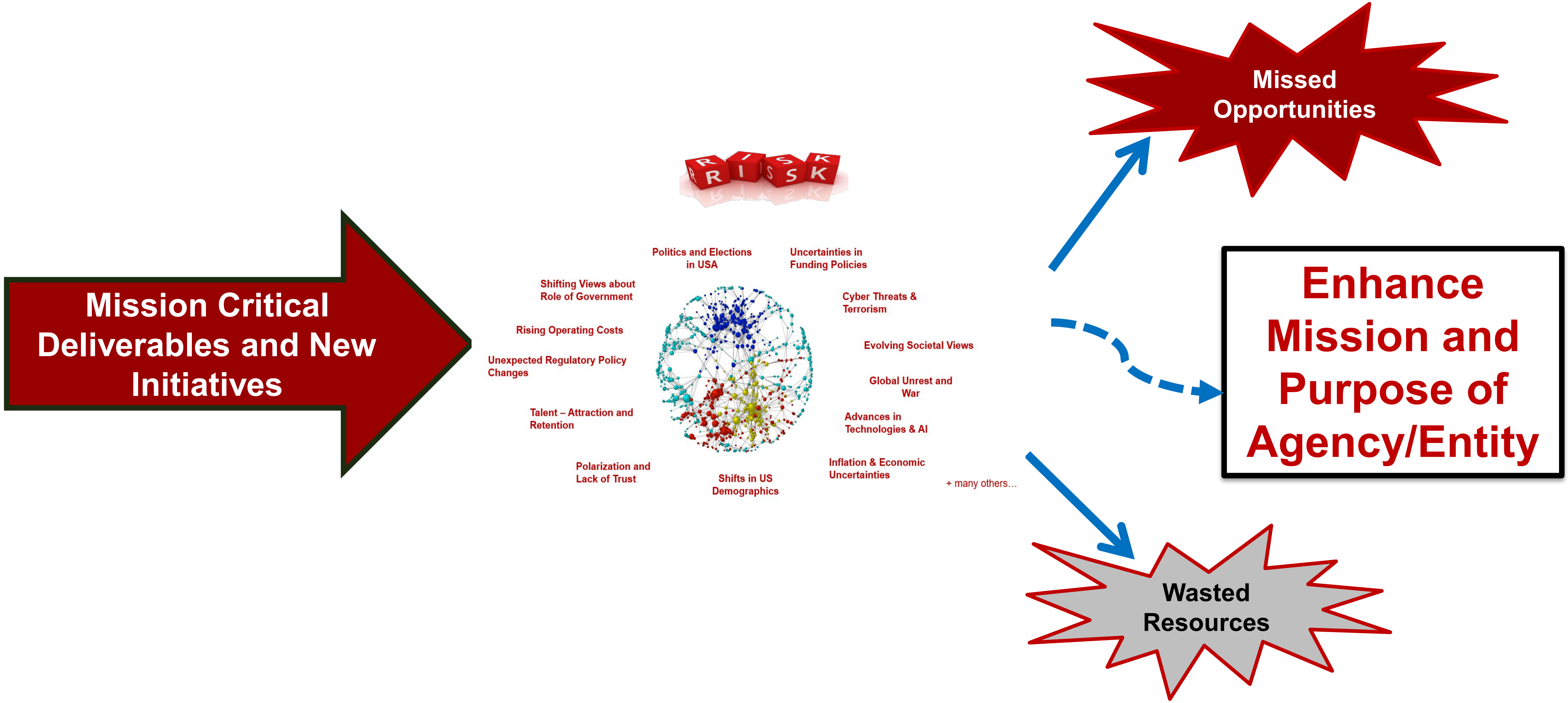
Polarization and Lack of Trust

Shifts in US Demographics

Inflation & Economic Uncertainties

+ many others…

Uncertainties Trigger Risks That Derail Strategic Efforts



Preference – Identify Emerging Risks BEFORE They Happen

Consider Risks **BEFORE** They Occur

Manage Downside

Take Upside

Politics and Elections in USA

Uncertainties in Funding Policies

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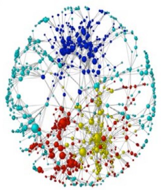

Evolving Societal Views

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Holistic View of Risks

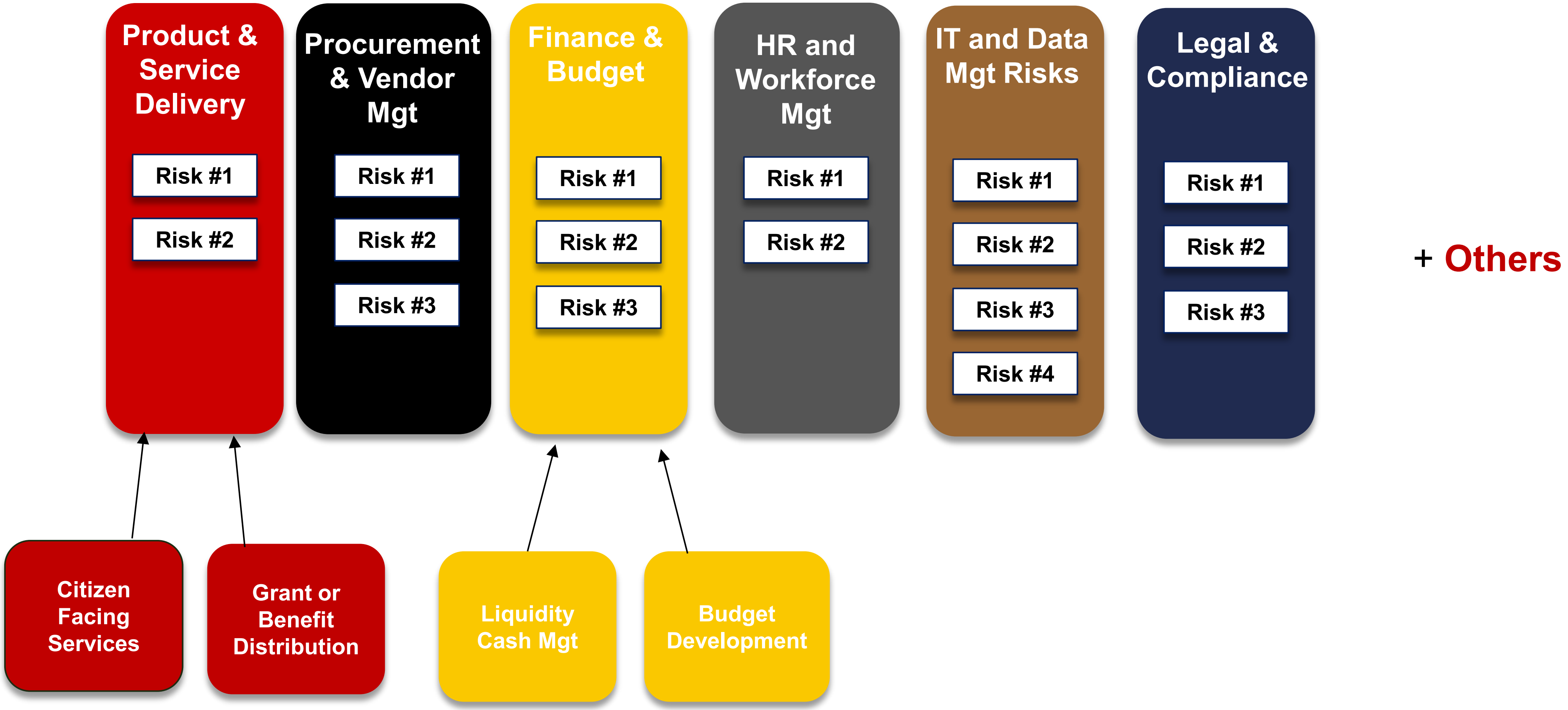
Mission Critical Deliverables and New Initiatives

Missed Opportunities

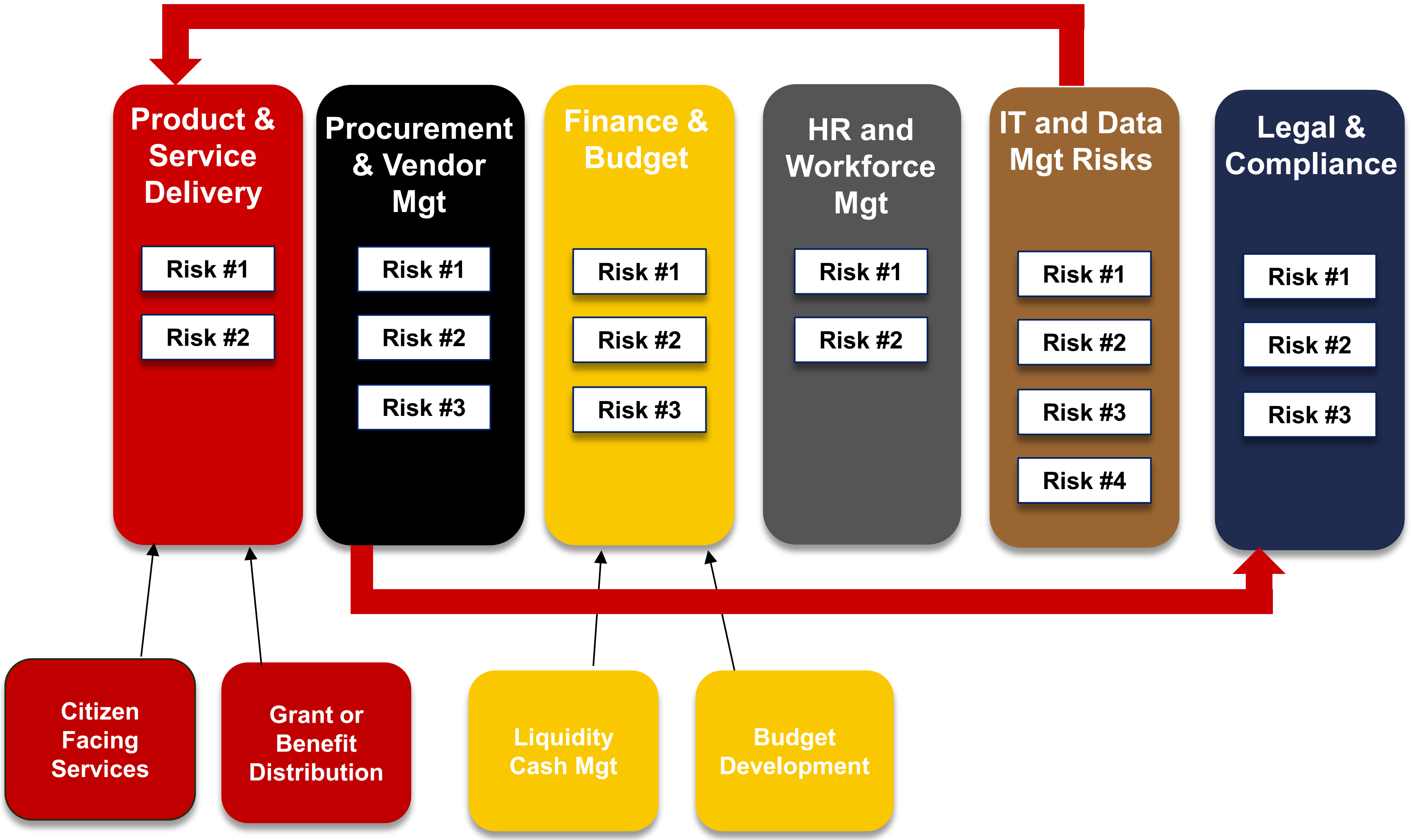
Enhance Mission and Purpose of Agency/Entity

Wasted Resources

Traditional Approach to Risk Management

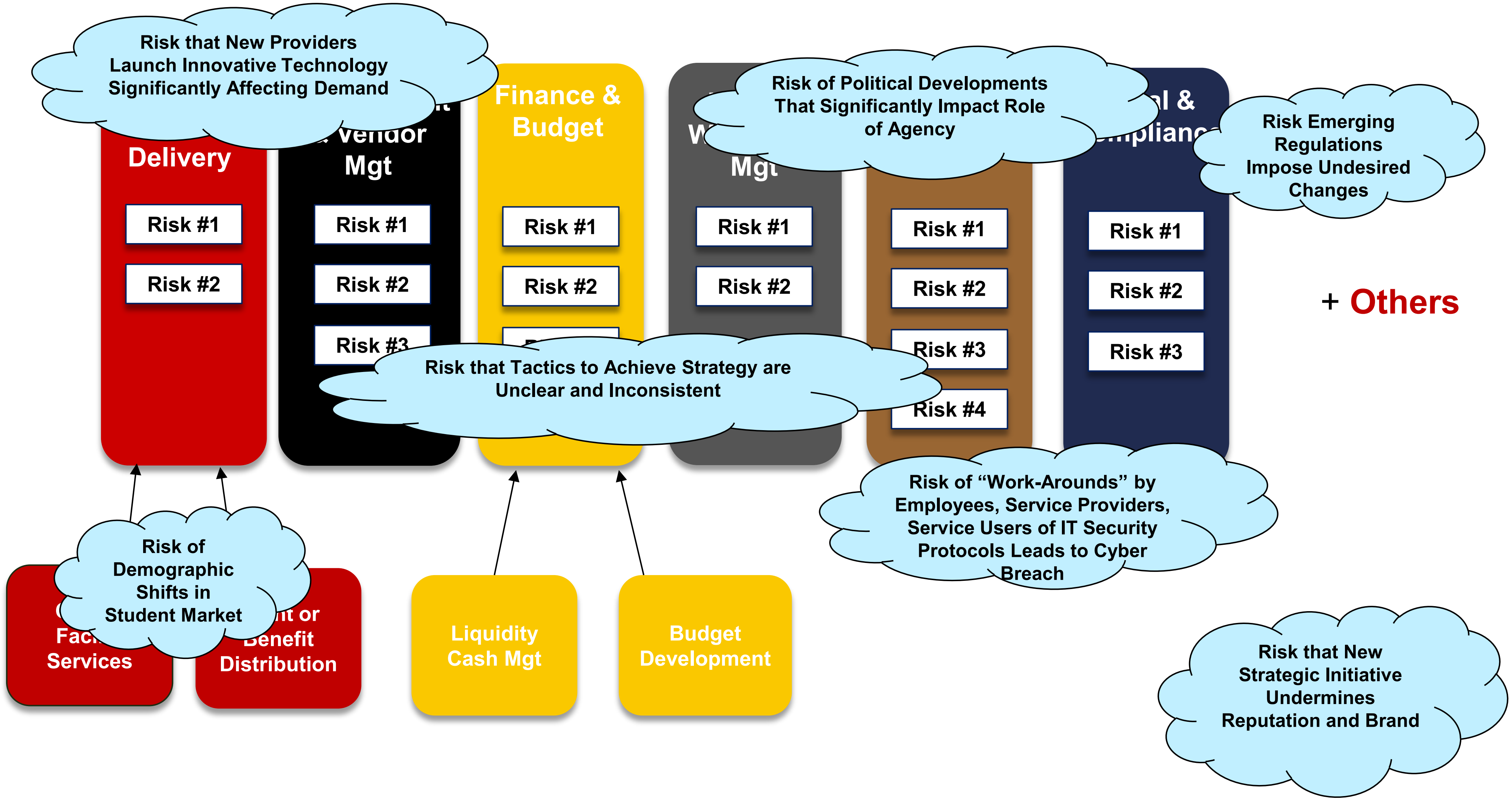


One Silo Creates Risk for Another



+ Others

Bigger Risks Often Go Undetected



Traditional Approach Biased Towards…

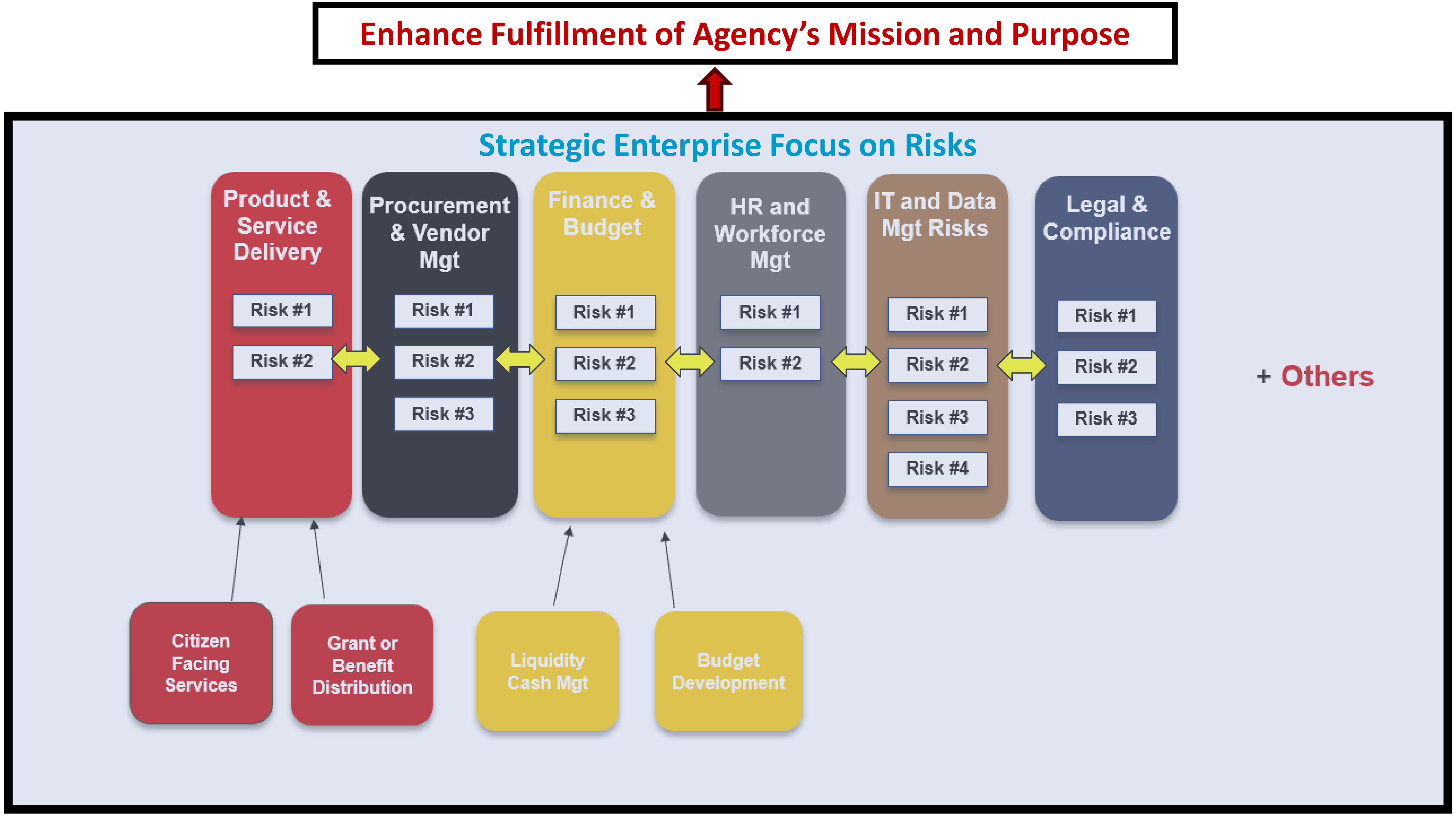
Known and Internal Risks

But, Leadership Needs to Move…

Unknown, but Knowable Risks

to a Known State

ERM’s Goal: Create Portfolio View of Risks



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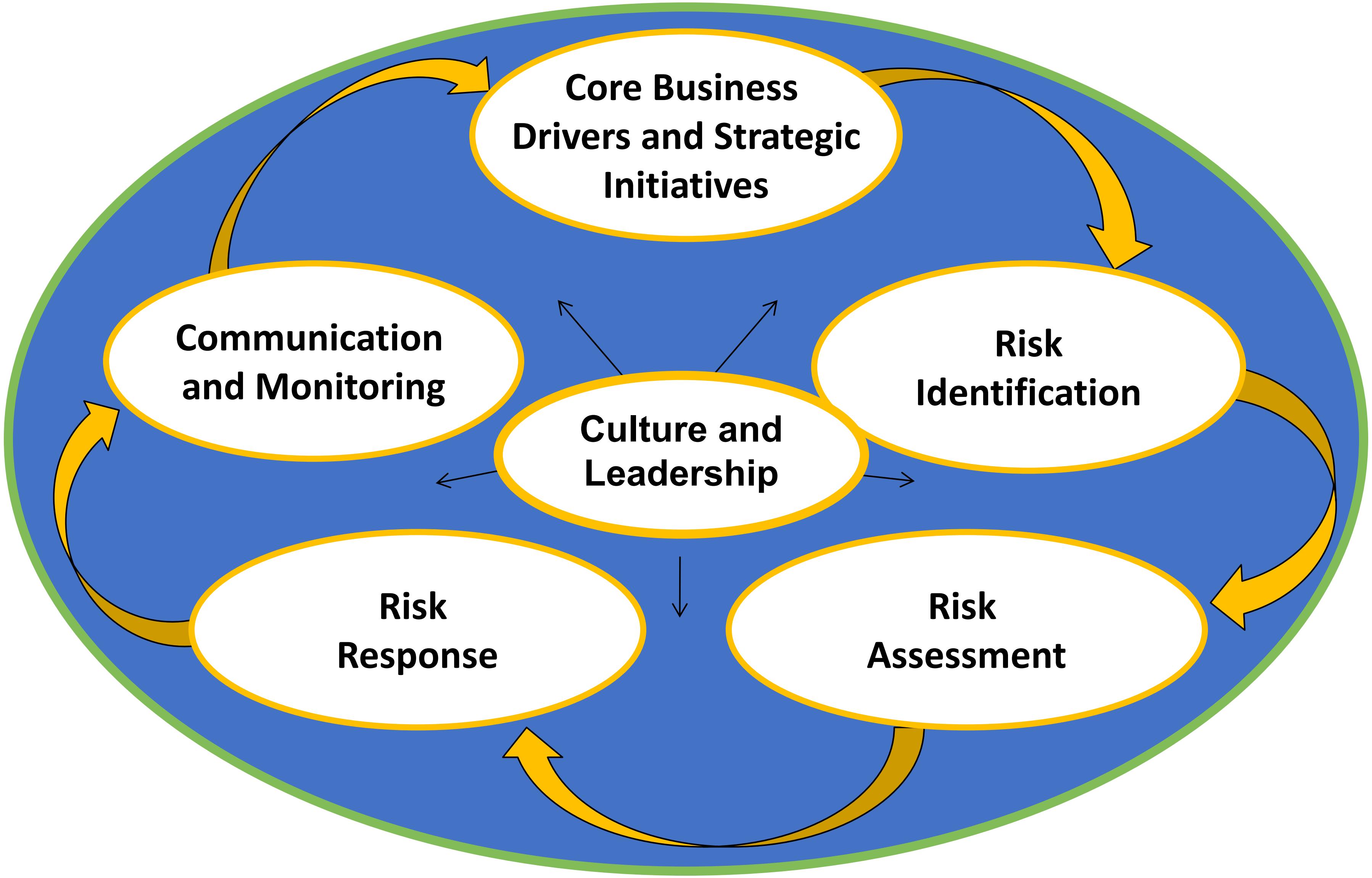
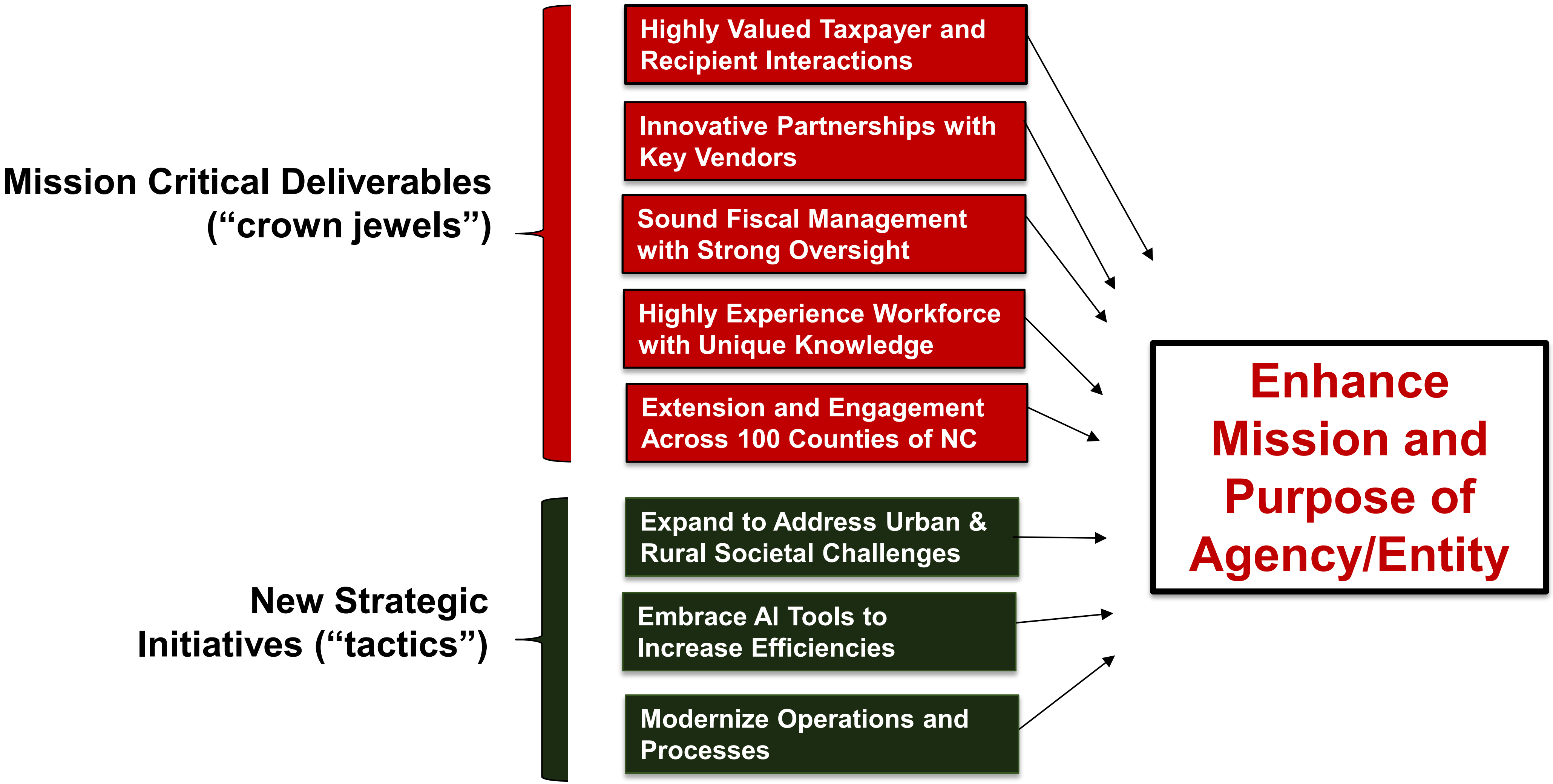
ERM can be one of the most effective <u>strategic</u> tools

Generic ERM Framework



Requires Clarity of What's Most Important to Success



Use Strategic Lens to Pinpoint Risks

Mission Critical Deliverables ("crown jewels")

- Highly Valued Taxpayer and Recipient Interactions
- Innovative Partnerships with Key Vendors
- Sound Fiscal Management with Strong Oversight
- Highly Experience Workforce with Unique Knowledge
- Extension and Engagement Across 100 Counties of NC

=

1. *What might emerge that derails a "crown jewel" or new initiative?*
2. *What big assumptions are we making? What if they are wrong?*

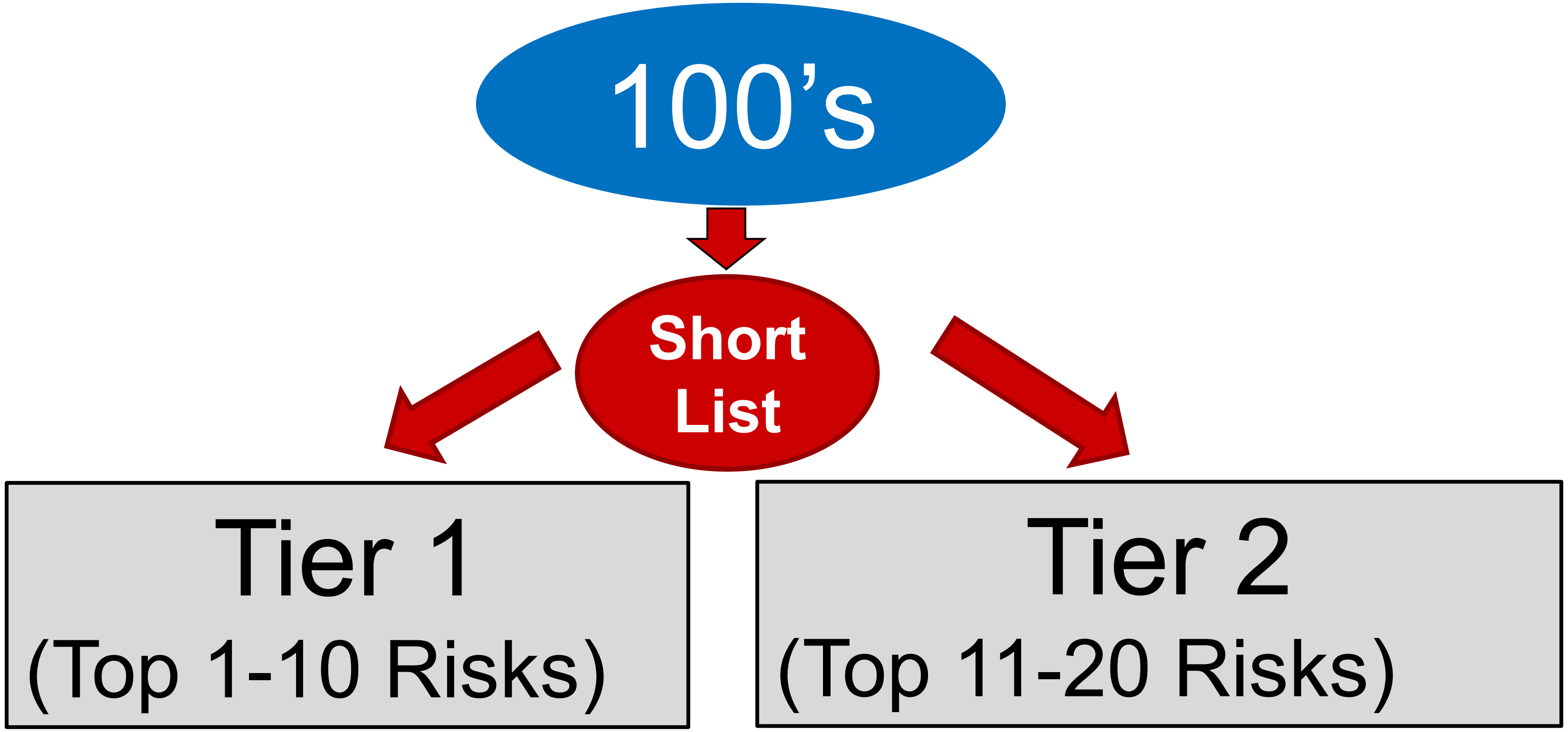
New Strategic Initiatives ("tactics")

- Expand to Address Urban Societal Challenges
- Embrace AI Tools to Increase Efficiencies
- Modernize Operations and Processes

→ **Enhance Mission and Purpose of Agency/Entity**

Agenda

Goal: To prioritize long list of risks to a short list of the most important risk themes.



Considering:

- Likelihood
- Impact
- Velocity
- Vulnerability

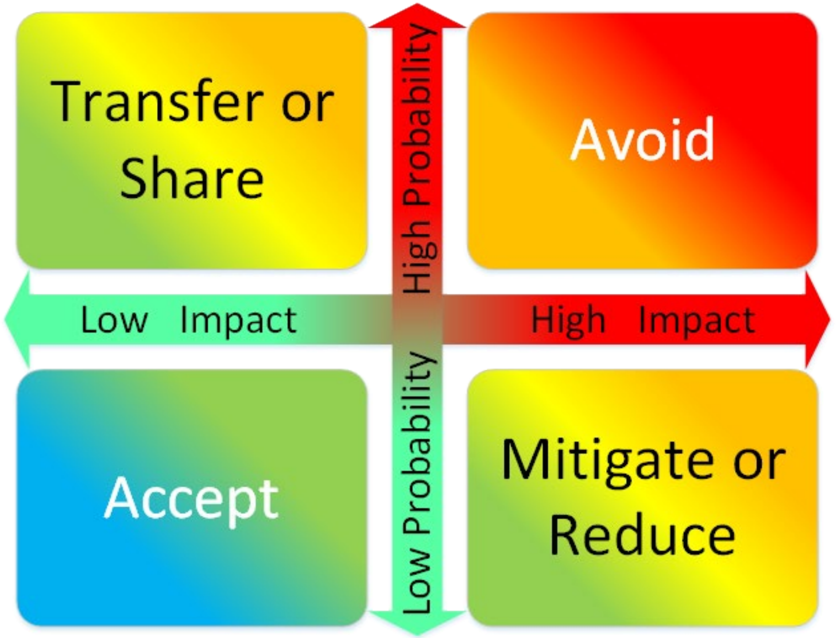
Develop Responses to Manage Risks (the Four T's)

Tolerate - Risk **acceptance.** Risk is of **low severity** and will only be dealt with if it arises. May be **monitored** *actively* or *passively.*

Terminate - Eliminate or **avoid** risk. Risk is of **high severity** and is costly to mitigate effectively. Take action to disengage from exposure altogether.

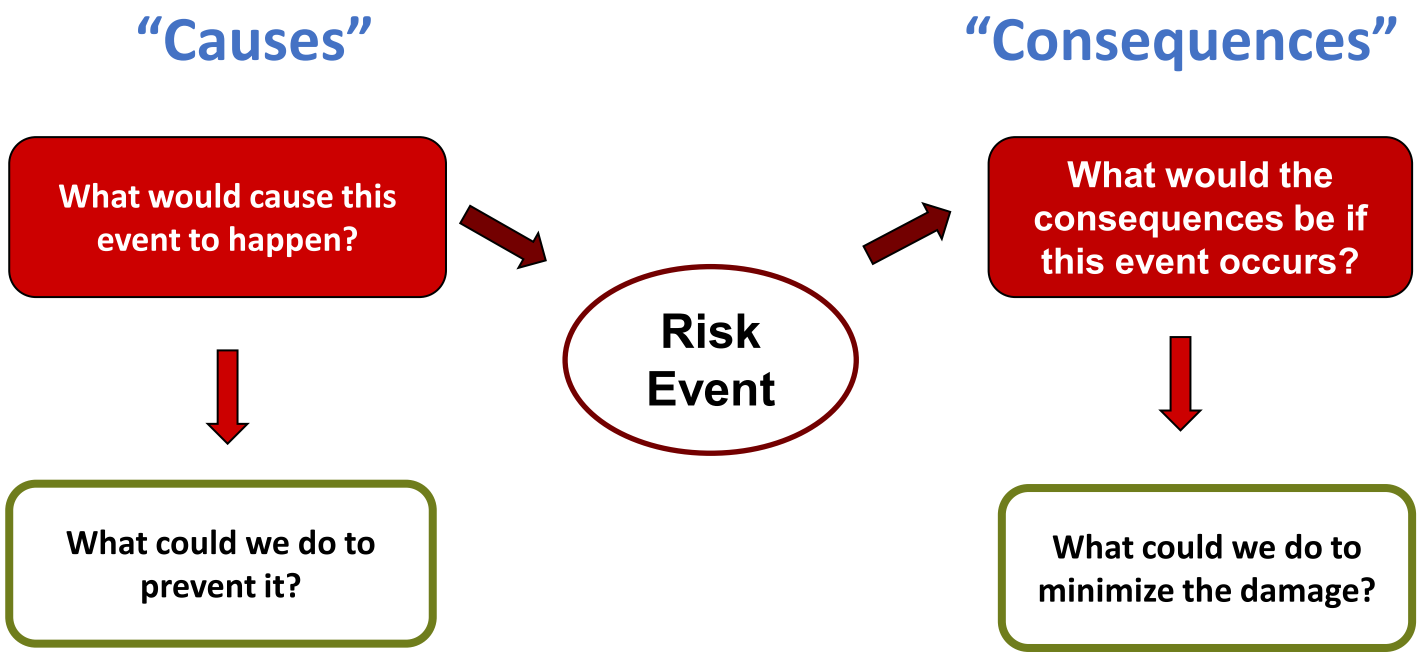
Transfer - Risk **sharing.** Such as **insurance**, hedging, joint venture, **outsourcing.**

Treat - Mitigate or **control** risks. Seek to **reduce likelihood** and/or **impact** to acceptable levels through policies, internal controls, etc.



Bow-Tie Analysis of Responses

Both Preventative and Reactive Responses



How will we go about ensuring our responses will be effective

Example of a Bow-Tie Analysis

Risk: Current environment may make it difficult to attract and retain talented workforce

Causes	Responses to Prevent Risk		Consequences	Responses to Minimize Impact
Compensation and benefits not competitive	Conduct benchmarking with entities who compete for same talent Consider adjustments in pay for key roles	*Current environment may make it difficult to attract and retain talented workforce.*	Key operations are interrupted for period of time.	Prioritize functions that need staffing most and boost compensation packages to secure longer employment
Younger talent do not view industry as favorable.	Develop awareness campaign of importance of industry.		Existing employee base has to work overtime	Provide bonus incentives and other rewards to recognize extra efforts.
Unclear career path options.	Develop a leadership development program to layout career path options		Over-taxed workface continues to leave at faster pace	Seek opportunities to outsource key functions to third parties.
Physical workplace locations unappealing.	Upgrade facilities. Offer incentives to live in less desirable areas		Certain initiatives have to be placed on hold.	Prioritize initiatives to place on hold first.

KPIs vs. KRIs

Historical

Forward Looking

Keeping an Eye on Key Risks

Metrics on Each Top Risk

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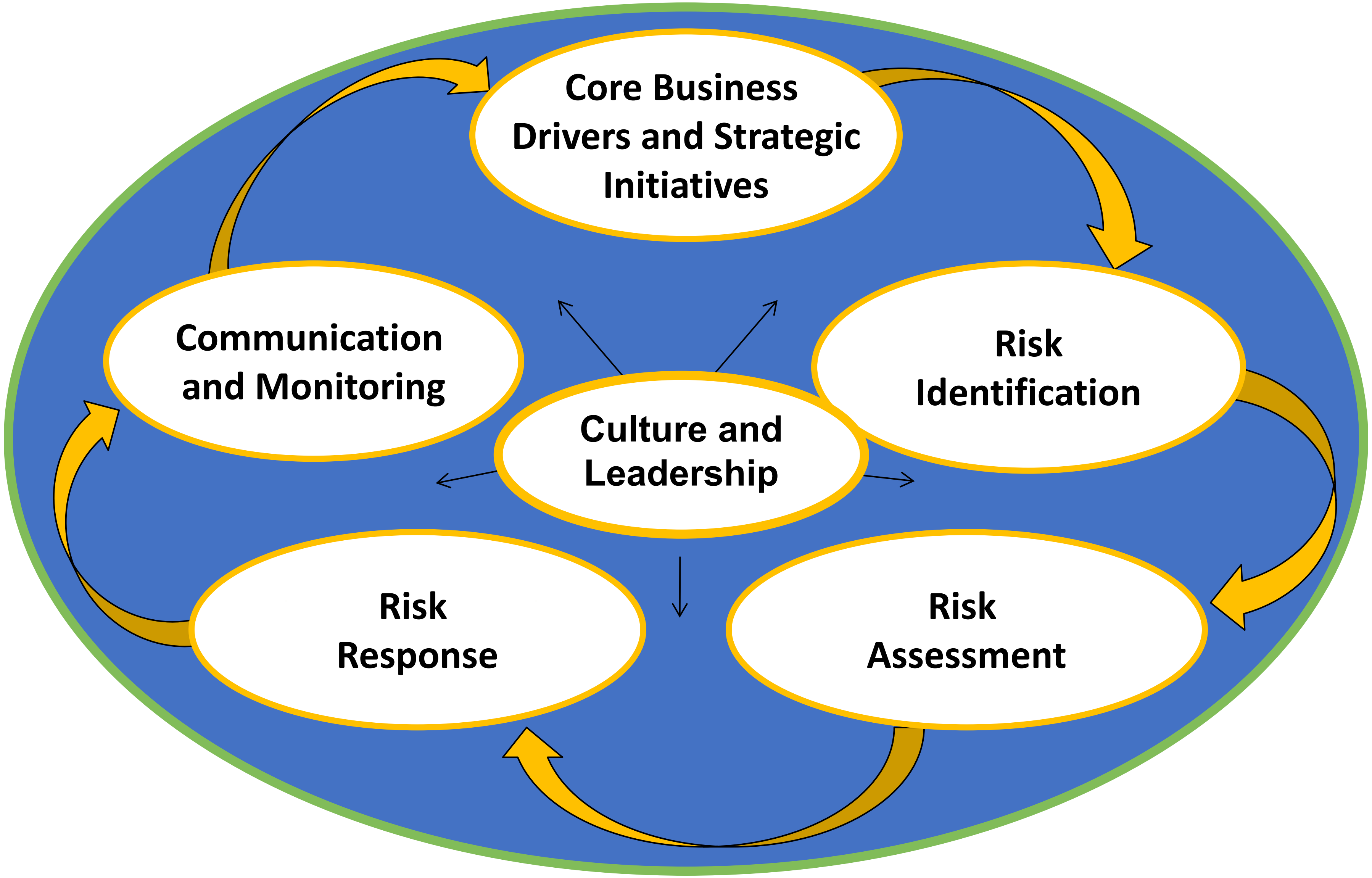
Enhance Mission and Purpose of Agency/Entity

Continuous Ongoing Process



Risk Management

is not becoming easier

But it is becoming

More Critical!

Contact

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