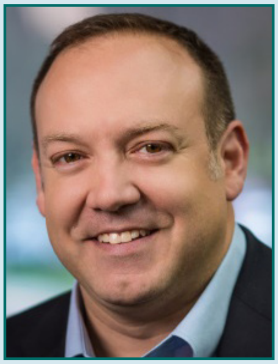
Q&A

Tom Easthope, Director, Enterprise Risk Management, and
Jeff Pratt, General Manager, Enterprse Risk Management, Microsoft

ERM AND ONE MICROSOFT STRATEGY

By Russ Banham

Tom Easthope


Jeff Pratt

RIMS

Four years ago, technology giant Microsoft embarked upon a major reorganization, called "One Microsoft," to enable the organization to bring a coherent set of products to market faster. The company restructured from eight separate product divisions into a single entity focused on creating technology devices and services for businesses and individuals.

Other changes took hold in succeeding years, including the 2014 appointment of Satya Nadella as Microsoft's third CEO, following in the deep footsteps of Bill Gates and Steve Ballmer. Since taking the helm, Nadella has adroitly steered Microsoft forward, generating more than $250 billion in market value during his tenure.

The various changes in leadership and operating models also have affected Microsoft's enterprise risk management program—in highly positive ways, as our recent discussion with Tom Easthope, director of ERM, and Jeff Pratt, general manager of ERM, reveals.

RIMS: Our research indicates that Microsoft's ERM program is about ten years old. How has it evolved over this time?

Pratt: It has been a journey. As a business, we went from being a portfolio company with multiple reporting and operating segments to where we are now One Microsoft. A new CEO came on board complemented by a healthy turnover of board members with new expectations of ERM. The ERM program had to evolve to meet these changes.

RIMS: In what ways did it evolve?

Easthope: The legacy ERM program structure was appropriate for our historical business model: one based on licensing revenues from "on premises" software that we could ship to customers on disks and update on a three-year refresh cycle. The world changed when the cloud arrived, which shifted our focus towards software services. These events converged to change the company's risk profile. Consequently, the ERM program needed to evolve to meet the new operating model and performance objectives.

RIMS: Take us through this evolution from the point at which it commenced.

Pratt: Previously, we would start with each division's strategy, aspirations and commitments, and the risks that stood in the way of these. Since we were a portfolio company, we had portfolios of risk. Ultimately, we'd aggregate these risks. Fast forward to today and we have one strategy, one set of opportunities and priorities, and one set of ERM best practices, which are shared across the enterprise. We can look across the enterprise left to right and consistently apply our risk methodology.

RIMS: It sounds like the changes are making ERM simpler to implement.

Easthope: It's a double-edged sword: a company like Microsoft has a great history and an established base of customers. But that also introduces technical debt as some of our customers may be slow to change. ERM has to identify risks to the new cloud based strategies and still address the legacy risk environment. Our former chief operating officer used to say we "needed to transform and perform." We still have teams with large businesses in on-premise software but the future is clearly in the cloud.

RIMS: Sounds like ERM is more important than ever to Microsoft, given the scope of change management.

Pratt: You're absolutely right. ERM provides a common lens for us to look at what can get in the way of our aspirations—from hardware to online services to advertising. An example is the global regulatory environment across 110 countries. When you have a consistent ERM approach with a common language regarding what is most important to the company and the things that stand in the way of achieving these aims, obviously that is a very valuable tool for senior management and the Board.

RIMS: It would seem that ERM was fragmented prior to the One Microsoft initiative but is now more seamless. Is this a correct assumption?

Easthope: I would say that we have more confidence in our end-to-end view of things, which wasn't as strong before, since each team was working separately and only coming together at the end.

RIMS: How does the new ERM infrastructure allow for this heightened collaboration?

Pratt: For example, let's take data privacy, a big issue these days. We have different subject matter experts across the company on data privacy. Management has assembled them into a consolidated virtual team, with the intent of understanding privacy compliance globally. This team works closely with our compliance organization. Both feed into the ERM program. So we have this umbrella risk called "data privacy" that we look at—in terms of what the company is trying to achieve against the things that stand in the way. Using the ERM framework, 13 different business organizations across the enterprise do an assessment with the compliance organization to deliver one common view.

RIMS: Has ERM become more important across the company?

Easthope: Since the operating environment is much more complex, ERM is more inter-related with the business. A measure of successful ERM implementation is when you go to any part of the company and talk to people in different divisions about their risks and they tell you they're using the ERM common framework in their assessments. Everyone is on the same page allowing for a better discussion of business objectives and risks.

RIMS: How do these objectives and risks align? In other words, is there some sort of document that lists the business priorities and next to them a set of challenges?

Pratt: There are management action plans for the top 20 risks. We can engage risk owners to see the new, ongoing and completed components of their mitigation efforts. We discuss the expected impact and actual impact of specific actions. There is clarity about what management is doing in a very concise way, making this a super valuable tool.

Easthope: Let me add to that. We start with business opportunities across the enterprise and then assess the operating environment, competitive landscape, regulations and other influencing factors. In this work to identify risks, we leverage external perspectives like RIMS. We also look at our previous risk assessments and the state of compliance. Then we engage with the appropriate subject matter experts and executive management. This all ultimately flows into a management action plan.

RIMS: Can you provide a real-life example of the ERM common framework at work, perhaps involving a particular business risk?

Pratt: Last June in filing our Form 10-K we noted that we had undertaken the largest reorganization of our commercial sales force in our history. It involved reorganizing a 40,000-strong sales organization across 110 countries. We had the opportunity to use the ERM approach to help senior management ensure we fulfilled our business opportunities and met our commitments at the same time that we managed the sales reorganization. ERM parsed this risk into its main components in a detailed management action plan. We then pointed out how we would track these components against our revenue and earnings, using a geographic scorecard. We're only five months into this now—still in the early stages. But our approach to using ERM as a change management tool is showing substantial progress. ■

Russ Banham is a Pulitzer-nominated business journalist and author who writes frequently about risk management.