



## **ENTERPRISE RISK MANAGEMENT**

THE PLDT GROUP has long recognized ENTERPRISE RISK MANAGEMENT (ERM) as essential to the achievement of business goals and objectives. The organization acknowledges ERM'S role in the promotion of a comprehensive understanding of risks and their effect on performance.

### **THE GROUP ENTERPRISE RISK MANAGEMENT DEPARTMENT**

The PLDT Group's commitment to the proactive management of existing and emerging risks is reinforced by the Group Enterprise Risk Management Department (GRMD). The GRMD develops and manages a comprehensive integrated risk management program that is implemented across all levels of the organization, with the goal of managing the Group's risks to an acceptable level, so as to enhance opportunities, reduce threats, and thus create even more value for the business and its stakeholders.

### **THE PLDT GROUP RISK MANAGEMENT PHILOSOPHY STATEMENT**

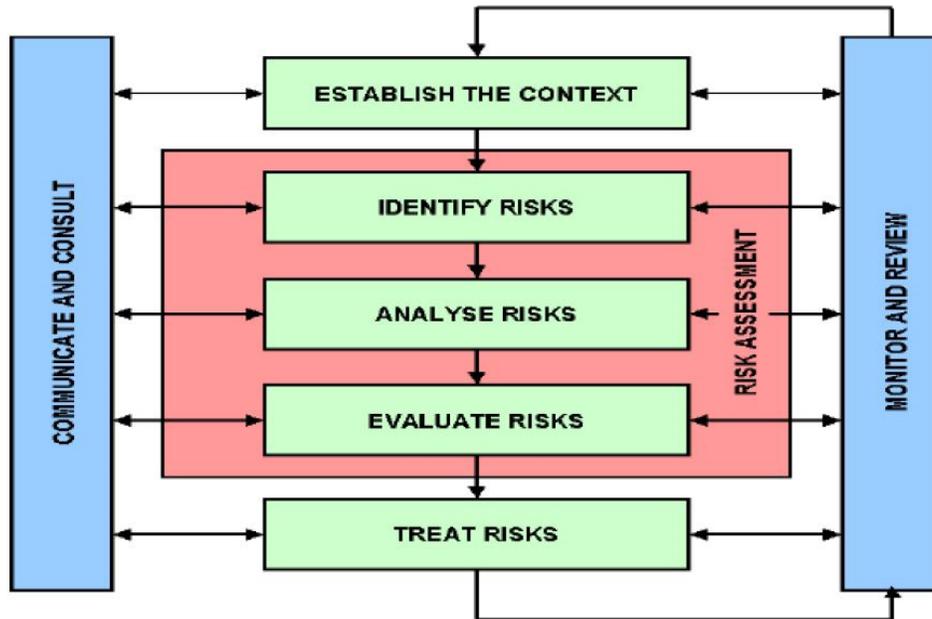
The PLDT Group adopts a risk philosophy that recognizes risks as integral to its business thereby committing itself to managing these risks with the aim of attaining its business objectives, thus enhancing shareholder value.

*The PLDT Group operates in a complex and dynamic business environment which gives rise to a variety of risks that can be both threat and opportunity. Recognizing that these risks are an integral part of its business, the PLDT Group is committed to managing its overall risk exposure in a systematic way and in such a manner that supports its strategic decision-making process. Accordingly, the PLDT Group employs a comprehensive, integrated risk management program, effected across all levels of the organization, with the goal of identifying, analyzing and managing the Group's risks to an acceptable level, so as to enhance opportunities, reduce threats, and thus sustain competitive advantage. The PLDT Group believes that an effective risk management program will contribute to the attainment of objectives by PLDT and its subsidiaries, thus creating value for the business and its stakeholders.*

### **THE ENTERPRISE RISK MANAGEMENT FRAMEWORK AND PROCESS**

The GRMD promulgates and encourages the adoption of a standard risk evaluation process focused on the need to properly identify, analyze, evaluate, treat and monitor risks that may affect the achievement of business objectives. The ERM process implemented is based on the International Standard of ISO 31000.

*ISO 31000: Risk Management Process*



The implementation of the ERM process ensures that high-priority risks are well understood and effectively managed across all functions and units within the PLDT Group.

### **The PLDT Group ERM Process**

#### **Establishing the Context**

Upon undertaking a strategic, business, budget or project planning exercise, the ERM process must be included as one of the initial planning stages. It is initiated and led by the Operational Unit Head and participated in by key member of his/her unit.

The first step in the process requires the articulation of the unit's business objective, which could be a strategic objective functional objective or project objective, depending on the planning activity to be undertaken. It is imperative that the defined objective is aligned with the overall organizational objective.

By clearly setting the business objective, the scope of the ERM process and the external and internal considerations for managing risks will be easily discernible, thus facilitating the rest of the process.

#### **Risk Assessment**

Risk assessment is the overall process of risk identification, risk analysis and risk evaluation.

#### **Risk Identification**

The aim of risk identification is to generate a comprehensive list of risks based on events that might create, enhance, prevent, degrade, accelerate or delay the achievement of the business objective. This step requires an intimate knowledge of the organization, the environment in which it operates, as well as an understanding of the organization's strategic and operational objectives, including factors critical to its success and the threats and opportunities related to the achievement of these objectives.

In order to ensure breadth of risks identified and that a consensus is arrived at, a facilitated risk identification workshop must be led by the Organizational Unit Head, assisted by a member of the GRMD, with key members of the unit using the Visual Risk Cluster method<sup>1</sup>. This mind-mapping technique involves identifying around the central business objective clusters of risks grouped according to the business model. The starting point is an area of responsibility involved in the business objective, such as a functional unit or project stage. Risks are defined for each area, after which sub risks contributing to the first level risks are identified. For each risk, it is imperative that a risk owner be assigned to ensure responsibility for managing the risk is clearly established.

### **Risk Analysis**

Risk analysis involves developing an understanding of the risk by considering the causes and sources of the risk, their positive and negative consequences, existing controls addressing the risk, if any, and the likelihood that the risk can occur. Risk is analyzed by determining the impact and likelihood of each risk, with consideration of existing controls, using a predefined scale, which is as follows:

<b>Likelihood</b>	The chance of the risk event happening. 1 – Improbable (0 – 4%) 2 – Unlikely (5 – 24%) 3 – Possible (25 – 54%) 4 – Likely (55 – 89%) 5 – Certain (90-100%)
<b>Impact on Objectives</b>	The outcome of the risk on objectives 1 – Insignificant 2 – Minor 3 – Moderate 4 – Major 5 – Extreme

The impact arising from the occurrence of the risk can be either economic or non-economic. Economic impact must be considered in terms of capital expenditure, operating cost, schedule, volume and revenue, and the definition of each level is defined and agreed upon among members of the operational unit. Meanwhile, non-economic impact is analyzed in the qualitative terms and may pertain to personnel safety, health impact, environment impact, quality of service, compliance impact and reputational impact, among others. The translation of each level for non-economic impact is pre-set and applicable across the organization.

### **Risk Evaluation**

The purpose of risk evaluation is to assist making decisions, based on the outcomes of risk analysis, about which risks are to be prioritized for treatment. The result of risk analysis is used to produce a risk map, which plots each risk in a two-dimensional matrix based on their likelihood and impact ratings. The score of each risk is derived by multiplying its likelihood rating with its impact rating.

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<sup>1</sup> John C. Hampton, Fundamentals of Enterprise Risk Management (USA: American Management Association, 2009) pp. 81-93.



Risks are classified as follows according to their scores:

- Low Priority: Risks with scores from 1 to 4. These risks do not require active management.
- Medium Priority: Risks with scores from 5 to 12. These risks require active monitoring.
- High Priority: Risks with scores from 15 to 25. These risks need urgent and immediate attention.

### Risk Treatment

Risk treatment involves selecting and implementing one or more treatment strategies to address high priority risks. Suitable risk treatment strategies and action plans must be developed by the operational unit, with consultation with personnel with experience and expertise in the relevant areas. The Operational Unit Head approves the strategies and action plans, making sure that these strategies are consistent with organizational objectives. Option for risk treatment strategies may include:

1. Avoiding the risk by deciding not to pursue or changing the activity that gives rise to the risk;
2. Reducing the impact;
3. Reducing the likelihood;
4. Transferring to or sharing the risk with another party or parties; and
5. Accepting the risk by informed decision.

Selecting the most appropriate risk treatment strategy involves balancing the costs and efforts of implementation against the benefits derived. Therefore, milestones and performance measures have to be set for the action plans in order to measure their effectiveness.

The risk owner shall be responsible for coordinating and engaging the different teams involved in the implementation of the strategies and action plans. Appropriate resources must be made available to ensure these plans are implemented effectively.

### Monitoring and Review

Progress of risk treatment strategies must be monitored against agreed milestones and performance measures. The risk owner must submit a quarterly report to the GRMD indicating the current status of the action plans and progress towards the achievement of the strategy. Where an agreed strategy is not achieving the intended result, new or additional risk treatment strategies must be developed by current or different risk owners.

The monitoring process will also encompass updating risk assessment in light of developments in both internal and external environments. The update must identify additional risks which have emerged since the last review, and also examine that previous low and medium priority risks have not developed a higher profile.

#### **Communication and Consultation**

The output from the ERM process must be properly documented. All forms involved in the process will be submitted to and maintained by the GRMD as central repository. This ERM database will assist in the review of past risk assessments for learning and improving the ERM process and methodologies involved. This, too, will serve as an audit trail for periodic audits by the Internal Audit Department or external auditors to test compliance with agreed upon policies and strategies.

Results of the ERM process must be reported by the GRMD to key stakeholders, particularly to the PLDT Group Management Committee, the PLDT Audit Committee and the PLDT Board of Directors. The report aims to enable these stakeholders to be aware of any critical risks that must be managed in the organization and for them to evaluate and provide direction on the appropriate action to be taken to address these risks.