The story of The Wizard of Oz has sparked the imagination of children and adults since American author L. Frank Baum created Land of Oz in the 1900s. The journey toward self-discovery and accountability depicted in the legendary 1939 Metro-Goldwyn-Mayer Technicolor movie, starring Judy Garland as Dorothy, and Frank Morgan as Professor Marvel (and of course his alter ego—the Wizard), remains ever-popular. Fans of Oz can look forward to seeing a fresh 2013 Disney Productions prequel movie starring James Franco in Oz the Great and Powerful. Each reinvention of the story contains the primary principles and characters set in a newly innovative framework with grander Hollywood tools and methods.

Why has this beloved story remained popular and relevant over one-hundred years, and what relationship do the learning lessons of The Wizard of Oz have to do with modern day risk management?

Let’s look at the latter part of this question first—modern day risk management. Recently, modern risk management methods have fallen under criticism for failure, and risk management itself may be becoming obsolete.\(^1\),\(^2\) Even enterprise risk management (ERM), heralded as the next generation of more effective risk management, has failed to fully deliver on its promise to detect future strategic risks or predict future performance.\(^3\) These ideas are provocative (and perhaps even fighting words!) to some managers of risk, but they are not totally without merit to those who stand in even a remote position to observe the outcomes of risk management. These failures are readily observed with surprising—if not shocking—frequency and severity. Indeed, in a 2012 survey of a diverse group of U.S. executives across broad sectors of business, leaders almost uniformly believe that risks will become more volatile, and a vast majority said their companies plan to reorganize and reprioritize their approaches to risk management in some form in the coming three years.\(^4\)

Perhaps the expectations we (the inhabitants of Oz, if you will) have for modern risk management to maintain a safe and productive society exceed the potential of risk management’s ability to deliver on them. It’s possible perhaps, like the Wizard, managers of risk have been using elaborate facades and magic to make our risk processes seem great and powerful. Is it, perhaps, some combination of both unreasonable expectations and poor methodologies?

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At Stanford University and the flagship organizations of the Stanford University Medical Network, we are of the mindset that to do a better job of managing risk for the organization, we must continually strive to understand and deal with risk expectations while improving our risk management strategies. We began reengineering our risk management program approximately five years ago, and have since evolved into The Stanford University Medical Network Risk Authority, LLC, aka The Risk Authority. This process started with a realization that our risk management framework was unduly focused on the protective functions of loss control and risk finance. Armed with a leading holistic definition of ERM and an engineering and management science infused-framework for managing risk we call “value driven enterprise risk management” (or VDERM for short), we set out to expand and refine our risk management approach so that The Risk Authority could become more effective and efficient in managing risk across the risk-reward spectrum.

A good working definition for VDERM is that it is a framework for making risk management decisions which maximize value protection and creation by managing risk and uncertainty and their connections to total value. Most managers of risk are familiar with the value protection function of defending against downside risks (e.g., natural disaster hazards or operational risks), but they may be less familiar with the value creation function of modern VDERM. Value protection follows closely the traditions of risk management: the process of making and carrying out decisions that will assist in the prevention of adverse consequences and minimize the adverse effects of accidental losses upon an organization. Value creation, on the other hand, is a simultaneous process of creating and implementing new courses of action which increase value—however that is measured (net cash flow, total shareholder value, total stakeholder value, etc.). In VDERM, we concentrate on creating and implementing new courses of action which balance downside risk and upside uncertainties to maximize total value.

With the terms and definition clarified, The Risk Authority then moved to form a comprehensive risk model. This is where things got a little more complex, requiring a little more heart, courage, and brains to succeed in our journey. There are many established risk management models to choose from (COSO, ISO, IIA, etc.), and then there are also consultancy firm hybrids of those established models (brokers, auditors, etc.). The Risk Authority uses the ISO 31000 model which has wide recognition in the United States and abroad. The framework essentially exists of five broad steps:

- risk identification
- assessment
- evaluation
- mitigation (and in VDERM, increasing value)
- monitoring (and reacting)

However, and most importantly, while doing a great job of providing a basic framework, almost all models (including ISO 31000) run short on providing the engine for adequate quantitative analysis which is required of VDERM. Therefore, Stanford infused our selected risk management platform with not only traditional historical analytics (statistics, actuary science, etc.), but, more importantly, with decision analysis science drawn from Stanford’s School of Engineering and Center for Professional Development. The tools of decision analysis science include such quantitative tools and methods as decision hierarchy, strategy tables, value and risk relevance maps, decision trees, tornado diagrams, S-curves, value-based risk tolerance, and water-flow of values charts, just to name a few. Of course, analysis is only as good as the information provided and the skill in communicating the results. Managers of risk

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**Learn More, Earn More**

The Certified Risk Manager (CRM) designation program is the place to learn about the various aspects of risk management, including identifying, analyzing, controlling, and financing risks. Risk Management Essentials, offered by The National Alliance Research Academy (www. TheNationalAlliance.com/bookstore), closely aligns with material from the CRM Program. Designated CICs and CRMs may also attend the Ruble Advanced Risk Management Seminar for a more in-depth look at risk management trends and topics. Other Academy books of interest include Risk Manager Profile and Net Income Risk Management.

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5 This definition has been adopted by the Board of Directors of the American Society of Healthcare Risk Management in 2013.
7 John Celona and Peter McNamee, Decision Analysis for the Professional—4th edition (October 2001)
with good business acumen and the right tools can create a risk management program that evolves in tandem to the organization and its industry.

The idea of managing risk to maximize total value is now a reality at Stanford. Without a notion of this idea, organizations remain without a basis to seek risk management consultation—except to put out fires. VDERM keeps the value upfront, driving traditional ERM to a new level of business mentality. For illustration, when Stanford Hospital leadership brought The Risk Authority to the table to discuss a business proposal for a new Safe Patient Handling Program several years ago, the results exceeded expectations. Safe patient handling is a discipline founded in evidence-based practices for safely moving hospital patients who cannot move themselves, while minimizing the risk of injury to both patients and hospital employees. We applied VDERM to generate an investment grade business case for Stanford Hospital to make a significant investment in the Safe Patient Handling Program. In addition to value protection considerations of patient and employee injury and resulting costs, the business case highlighted opportunities for value creation that are routinely over-looked or left unquantified in an analysis (improved clinical outcomes, increased patient and employee satisfaction, etc.). The comprehensive decision analysis performed by The Risk Authority at the start of this business venture contributed to the financial and reputational success the organization continues to experience. The Stanford Safe Patient Handling Program has since become a beacon in the industry and is now incorporated in the 2010 Guidelines for the Design and Construction of Health Care Facilities published by the American Society of Healthcare Engineers (ASHE).  

So let’s consider how managers of risk can become like the great and powerful Wizard of Oz in the modern corporate landscape. The first step toward modernizing a risk management model and processes, in our experience, is self-evaluation of the individual roles of managers of risk and the risk management program as a whole, in light of the organization’s goals. For example, existing risk management tools (heat maps, risk registers, etc.) and practices based on historical data and intuition are a good start, but inadequate for the demands of today’s business climate. As the need to cover the “upside” risks (financial and otherwise) continues to grow, so does the need for an effective risk management framework and science-based tools that quantify uncertainty in both risk and value. The methodology of decision analysis as applied in VDERM provides the means of capturing systemic, correlated, and value creation risks on the same basis as value protection risks. The application of proven scientific methods to guide decision making not only reduces uncertainty in business decision making, but also reduces uncertainty in the role managers of risk play in all sectors of business.

At five years into The Risk Authority’s risk management program, we continue to see how the VDERM model facilitates innovation from the organizations we support. We manage risk in terms of total value, an idea that may seem like something from the land of Oz, but that is scientific instead of magical, though still great and powerful.

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Jeff currently serves as the chief executive officer of The Stanford University Medical Network Risk Authority, LLC (known as The Risk Authority), and as the chief risk officer of Stanford University Medical Center. The Risk Authority provides risk management services to the Stanford University Medical Network and worldwide in the areas of medical malpractice loss control, claims handling, worker safety, safe patient handling, quality, clinical effectiveness, and risk finance.

Renée serves as a risk management consultant with The Stanford University Medical Network Risk Authority, LLC, and as a director in risk management for Stanford University Medical Center.

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