AFERM
Association for Federal Enterprise Risk Management

(TOPIC) Leveraging War Gaming and Simulation techniques to sustain ERM Programs

4 November 2015

Agenda

1. Introduction to Strategic Risk
2. Risk from an Operational Perspective
3. Leveraging Risk through War Gaming and Simulation
4. Déjà vu all over again

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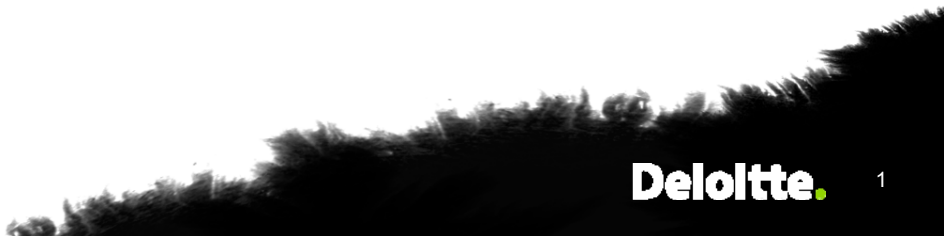

INTRODUCTION TO STRATEGIC RISK

Introduction

War Games enable teams to ***explore*** current challenges, ***assess*** their capabilities against established processes, or ***anticipate*** future risk by recognizing indicators and warnings. War games provide leaders with collective knowledge beyond what any one person could consider. They are an information, decision and solution multiplier.

Strong leadership has helped militaries, governments, and private sector organizations navigate increasingly complex environments fraught with risk.

Moderator:

- Linnea Gavrilis

Panel:

- CMSgt (Ret) Ken McQuiston, USAF
- VADM (Ret) Jody Breckenridge, USCG
- Lieutenant General (Ret) John Sattler, USMC

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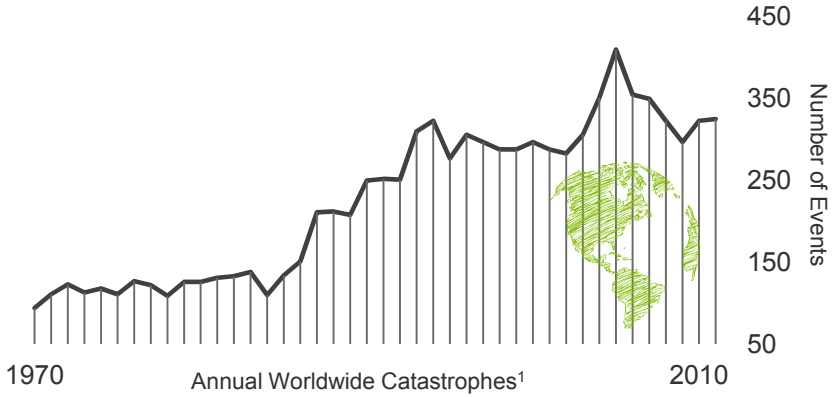
Larger, more frequent disruptive events are a risk to your organization

Since 1970, the world has seen a drastic increase in crises



Annual Worldwide Catastrophes[1]

Research[2] by Deloitte Advisory shows that 86 top crisis incidents during 2012-13 resulted in a cumulative market value loss of **$351 bn**, and other financial losses of **$45 bn**

Crises place leaders in situations where they needed to make decisions more quickly, act more decisively, and manage ever greater risks

Triggered by a host of events with regional/global impact[3], in 2014, we saw…

Financial disruption
Almost **27,000 business bankruptcies** in the U.S. alone

Confrontations
Over **200,000 man-days lost** from major work stoppages in the U.S.

Misdeeds & financial crime
Almost **90 corporate fraud** and embezzlement cases in the U.S.

Malevolence & cyber
Nearly **430 cyber-attacks** every week in > 250 companies globally

Technological & industrial
More than 850,000 occupational incidents every day. globally

Other catastrophes
More than **980 significant events** globally

1. Swiss Re: Natural disasters and man-made disasters in 2011
2. Source: Crisis management: Analysis of crisis impacted companies
3. Detailed sources listed in the Appendix

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Managing Enterprise Risk as a Leader

Validate the elements of your risk management program through war gaming

- Evaluate current capabilities and identify gaps
- Institutionalize best practices and lessons learned
- Create consistency in standards across operating divisions
- Leverage a 'cellular' structure to remove bias
- Rehearse in a simulated environment, avoid expenditure of resources

War Gaming provides leaders with an environment in which their teams have the freedom to fail without risk to the organization and loss of resources. They provide leaders and decision makers more opportunities to anticipate, counter, and respond to 'live' actions and events, identifying and assessing potential consequences of both action and inaction.

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RISK FROM AN OPERATIONAL PERSPECTIVE

Practice makes perfect - (well almost!)

Work to reduce risk through **Identification**, **Assessment**, **Planning,** and **Practice**

- **Identify** known risks and try to anticipate the unknown
- **Assess** available information, seek insight, look to those with experience
- **Plan** for all known and do your best to anticipate the unknown
- **Practice** your process often (Modeling and Simulation)

Real-World events impacted by effective Risk Management

- *Afghanistan / Iraq* logistical challenges (2001-Present)
- *Hurricane Katrina* Response (2005)
- *Pakistan Earthquake* Response (2008)

"My Logisticians are a humorless lot, for they know if my Campaign fails, they are the first ones I will slay!"

Alexander the Great

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RISK REDUCTION THROUGH WAR GAMING AND SIMULATION

Strengthen an integrated approach to risk assessment

- Account for the human dynamic that plans cannot
- Align understanding of assumptions
- Challenge personal biases
- New leaders emerge
- Build trust, confidence, and teamwork

Promote innovation and understanding of resource allocation decisions

- San Francisco Bay Water Emergency Transportation Authority
- San Francisco Fleet Week Humanitarian Assistance/Disaster Response Program

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DÉJÀ VU ALL OVER AGAIN

Avoid common pitfalls through regular practice

- Validate or void assumptions
- Define decision points
- All boats rise (use those who are knowledge rich)
- Induce stress (assess who remains calm)
- Identify branch / sequel plans

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2004 Second Fallujah Battle

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Why War Games Work

The power of a War Game comes from immersing individuals in a challenge, crisis, or future scenario that enables them to internalize their experiences and become more knowledgeable about and invested in potential solutions.

Leaders and their teams benefit from engaging directly in the Game, allowing them to better identify and assess risks, threats, and opportunities in a simulated environment.

As a result, their organizations are more agile and adaptive—ready to respond to difficult situations, leverage risk more successfully for their agencies, and anticipate future challenges.

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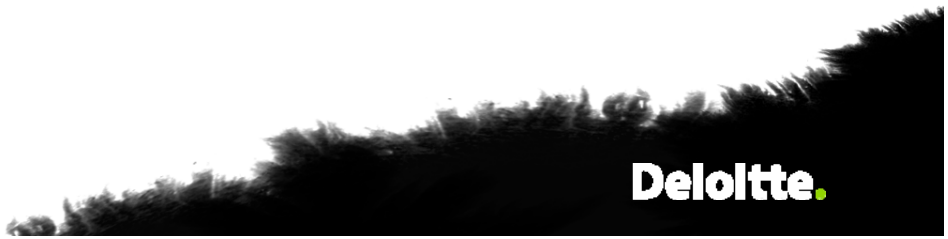

THANK YOU!

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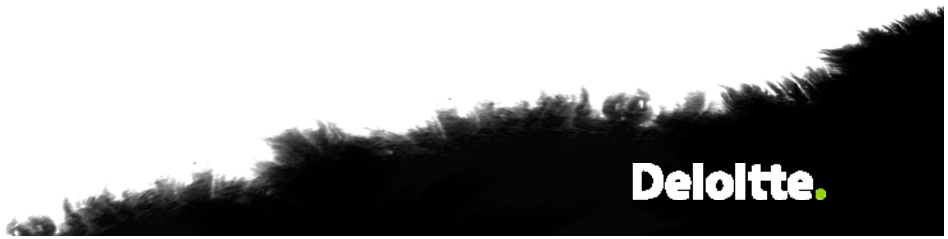

APPENDIX

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WHAT IS A WAR-GAME AND WHAT DOES IT DO?

- Provides **disciplined approach**, with rules and steps that attempt to visualize the flow of an operation.
- Allows a diverse group of people to brainstorm and work together.
- Stimulates ideas and provides insights that **might not otherwise be discovered**.
- Highlights critical tasks and provides familiarity with operational possibilities that **otherwise are difficult to visualize and understand.**
- Allows **exploration of emerging issues** and ideas.
- Permits risk-taking; **without resource expenditure.**

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WHAT'S IN A NAME? THAT WHICH WE CALL A WAR GAME…

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CONVERSATION TRIGGERS

Understanding when you can benefit from a war game

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