



The RIMS Strategic and Enterprise Risk Center presents:
**Michael Zuraw, Senior Director, Global Enterprise Risk Management,
ON Semiconductor**

TRULY LONG-TERM STRATEGIC RISK MANAGEMENT IN FOCUS

By Russ Banham



RIMS

ON Semiconductor, a global semiconductor supplier specializing in power management, analog, sensors, logic, connectivity, discrete components (like transistors and diodes), integrated circuits (like Systems-on-Chips), and custom devices for applications in the automotive, communications, computing, consumer, industrial, medical, aerospace and defense sectors, was

spun off by Motorola's semiconductor components group in 1999. Over the past six years, the Fortune 500 company has developed a groundbreaking ERM program predicated, in part, on assessing the strategic risks and opportunities a quarter-century from now presented by still-materializing events like fully autonomous vehicles.

The company received honorable mention for the Global ERM Award of Distinction at the RIMS ERM Conference 2019, and was acknowledged for its disciplined application of risk appetite parameters and integration of emerging and interactive risk workshops.

Leading ON Semiconductor's Global Enterprise Risk Management program is Senior Director Michael Zuraw, who joined the company in 2005 following stints at Lucent Technologies, AT&T, Bell Labs and other tele-tech businesses. He brings an MS in Electrical Engineering from Stanford University and an MBA from The Wharton School at the University of Pennsylvania to his role leading ERM. RIMS discussed with Zuraw the evolution of ON Semiconductor's ERM program since he was appointed as its leader in 2014.

RIMS: You are the first electrical engineer we've come across to lead a large global company's ERM initiative.

Zuraw: I joined the company in 2005 as director of product management and then moved into supply chain planning before the board made the decision to formalize the ERM program. By that point, I had already shifted away from engineering into more business-oriented management roles.

RIMS: What led you to become involved in enterprise risk management?

Zuraw: In 2014, the board decided to create a structure and a charter around ERM and appointed a Chief Risk Officer (George "Sonny" Cave, who also

serves as the company's General Counsel and Corporate Secretary). We had engaged an ERM consultant to define the framework and create the program. I didn't know Sonny well at the time, but our Chief Operating Officer (William "Bill" Schromm) recommended me to Sonny as someone to lead the project. Bill was aware of my interest in long-term strategy and Sonny was looking for someone to develop a strategic ERM approach. In our first meeting I mentioned to Sonny that if the assignment involved strategy, I was open to the idea; but if it was pure project management, I'd be the wrong fit.

RIMS: So the 'strategy-first' approach made the difference.

Zuraw: Sonny and I were in alignment philosophically that enterprise risk management is all about making better decisions, and strategic decisions are a company's most important ones.

RIMS: What were some of the first steps taken once you took charge?

Zuraw: I did some basic things like implementing the structure and the reporting framework. I also determined who would be the risk owners or what we call 'risk champions,' to conduct the risk assessments across the 25 functions. We then rolled up the assessments into a report documenting the top risks for the board. We also put together heat maps indicating risk likelihood and impact and related mitigations. All of this is pretty much standard. But we decided to go a bit further, digging into where we could take more risk from a strategic standpoint, as opposed to eliminating all the downsides.

RIMS: Other ERM leaders have mentioned they struggle with discerning how much risk to take. Did you also find it difficult?

Zuraw: An organization needs to establish its risk appetite at a very detailed functional level before it can decide how much risk to take. Anyone can do an assessment of current risks, but if you don't have a sense of how much risk you are willing to take as an organization in order to achieve your goals, it's of little value.

RIMS: What did you do to assess future risks?

Zuraw: We created a detailed breakdown of risk appetite, creating more than 50 risk appetite statements. In each functional category, the risk appetite was scored as: "cautious," "moderate," "flexible," "averse" or "tolerant." We subsequently plotted the acceptable target on the heat map for visualization purposes, but primarily to drive a conversation. If the map indicates that more risk should be taken in a specific area, but the risk owner's appetite is averse, we can discuss why this is the case. Risk management is a team sport. We're not the ERM police.

RIMS: Great analogy. What other ERM innovations have you introduced?

Zuraw: Another tack we're taking that is atypical derives from the fact that we're a company of engineers fixated on solving problems. Whereas many companies do risk assessments with a six-month or 18-month outlook, we decided on a far longer timeframe. We're looking at things like fully autonomous vehicles that are still emerging but are inevitable and positing what the world will be like 25 years from now, when they are ubiquitous.

RIMS: What is the process for these imaginings?

Zuraw: We call it an 'Emerging Risk Session.' We gather about 20 people on an annual basis off-site, so they're not distracted by their phones, desks or computers. It's a full-day event and we sometimes have an external speaker who's an expert in the theme we're diving into, such as climate change or autonomous/connected vehicles. We then conduct a series of scenario exercises around the theme.

RIMS: Do senior executives attend the sessions?

Zuraw: We don't focus senior executives on these exercises, rather, we concentrate more on soliciting input from forward thinkers in operations and other functions just below the executive level. We want to ensure diverse points of view and open dialogue. It's completely unscripted and sort of scary.

RIMS: 'Scary' in what sense?

Zuraw: In the sense we're talking about what the world might look like in 25 years; it may be starkly different from the present. Of course, that's exciting, too. We don't pick themes that are completely ridiculous—like Martians landing on Earth and eating us all. It has to be a plausible inevitability where the timing is uncertain. We know, for example, that smart cities and fully autonomous cars are coming, but we don't know exactly when or even what the ramp will look like in detail. In the 'what if?' scenarios, we discuss the possibility that something will occur at some point in time and then roll things back from there.

RIMS: So, you might look at climate change today, posit what will happen in 25 years—like widescale deforestation and rapid coastline erosion—and then try to determine the events that must occur in a certain order to reach that point?

Zuraw: Yes, we say if this does happen in 25 years, what are the intermediate points that must happen first for it to occur. These points are the leading indicators of the event happening. They're proxies for us to know we're getting closer to the inflection point of the scenario occurring. By tracking these indicators, we can create plans today of what we will do when and if the event happens. Once a leading indicator is evident, then we have in writing the initial three or four things we would do to kick off the development of our full response.

RIMS: You're now ready to act when the event surfaces.

Zuraw: Correct. If the event occurs, we can look at 'Session Number 7' from 2023, for instance, see the three or six things we'd decided back then we'd do and then put them in motion. Meanwhile, our competitors are in a room wondering what they should do.

RIMS: You have a six-month head start.

Zuraw: There is always the possibility we got the scenario wrong or the leading indicators don't happen as we imagined. But, in terms of strategic thinking,



risk assessment and decision-making, the sessions generate unique interactions among smart people that otherwise would not happen inside the usual silos.

RIMS: What are some of the wilder imaginings coming out of a recent session?

Zuraw: Since an important global market for us is automotive, we did a session on fully autonomous and connected cars. We got into scenarios like who would actually own these cars—the driver, the manufacturer, or some other party? How would the cars be maintained? What if there's a fleet of autonomous vehicles that automatically transports a mechanic and parts to a vehicle that's not running right? What if the vehicle knows when it needs to go to get something upgraded and automatically drives to the mechanic, then picks up coffee for you on the way home? Since most vehicles are likely to be electric 25 years from now, how will they be charged? Would they drive themselves to the car wash to get cleaned and charged at the same time? Every single one of these scenarios produces outcomes that create risk and opportunity for us.

RIMS: But the challenge is not having a definite timeframe.

Zuraw: That is the challenge. We know that autonomous and connected cars are inevitable. By imagining the things that must occur in a certain order for it to happen—specific technological, regulatory, legal, market and other developments—you have a clearer picture of the inflection point. Better still, you're ready for it. ■

Russ Banham is a Pulitzer-nominated financial journalist and best-selling author.