



# Microsoft- Enterprise Risk Management (ERM)

Treasury and Risk- Vision 2009

March 25<sup>th</sup>, 2009

Michele L. Turner- Sr. Manager Operations  
Enterprise Risk Management (OERM)

# Company Profile

## Microsoft Mission:

“At Microsoft, our mission and values are to help people and businesses throughout the world realize their full potential.”

## About Microsoft

- Founded in 1975
- Corporate headquarters – Redmond, WA
- Over 100 subsidiaries worldwide
- Over 91,000 employees worldwide
- Core business divisions with diverse and distinct focuses

## Unique Challenges

- Geography, culture
- Business priorities
- Implementation of enterprise programs

# ERM- Setting the Stage

ERM is to help Microsoft's Board of Directors, Senior Leadership Team, and Management accomplish the company's core strategies by :

- Facilitating a programmatic and global approach to Enterprise Risk Management
  - Establishing broad accountability for the most critical risks facing the company
- Enabling the achievement of underlying business objectives through business insight related to value creation and value protection

Board of Directors: Audit  
& Finance  
Committee(s)

Enterprise Risk Office  
Executive Sponsor: CVP of Internal Audit  
Program Office: Sr. Director of ERM

## Strategic

SLT: CEO  
Sponsor: GM Corporate Strategy  
Leader: General Manager  
Pillar Support: Corp Strategy Sr.  
Manager

## Legal/Compliance

SLT: SVP Legal Compliance  
Sponsor: VP Deputy General  
Counsel  
Leader: Compliance Director  
Pillar Support: Compliance  
Program Attorney, Compliance  
Technology Manager

## Financial/Reporting

SLT: SVP and CFO  
Sponsor: Corp VP of Finance  
and Administration  
Leader: Director  
Pillar Support: Financial  
Manager

## Operations

SLT: COO  
Sponsor: CVP and CIO  
Leader(s): Sr. Principal, Sr.  
Manager- OERM  
Pillar Support: Sr. Solutions  
Manager- OERM



# ERM- Setting the Stage, cont

## Strategic

## Operations

## Legal/Compliance

## Financial/Reporting

Business Model:  
 Vision & Direction  
 Monetization Model  
 Brand/Marketing Strategy  
 Channel Strategy  
 Pricing Strategy  
 Competitive Positioning  
 Value Chain Strategy  
 Measurement & Monitoring

Strategic Investments:  
 M&A  
 Partner Alliance  
 Ecosystem Investments  
 R&D Investments

Market Dynamics:  
 General Macro Environment  
 Social-Political  
 Technology Changes  
 Talent Acquisition  
 Customer Demand  
 Consumer Lifestyle  
 UGC/Sharing  
 Use of Mobile vs. PC  
 Piracy

Business Model Disruptions:  
 "Thin" Client Services  
 Open Source  
 Ad-Funded  
 Virtualization  
 OEM Disruption  
 Channel Alienation  
 Importance of S/W H/W Coupling

Product Development:  
 Product Strategy  
 Software Development  
 Product Development Partners  
 Product Quality, Integrity and Compliance  
 Product Security and Privacy  
 Product Release  
 3rd Party Subsystems or Functionality  
 Integration

Sales & Marketing:  
 Research and Development  
 Marketing  
 Advertising  
 Product Pricing  
 Sales and Marketing - Partner Mgmt  
 Sales Contracting/Customer Pricing  
 Order Management  
 Public Relations

Services:  
 Consulting Services  
 Customer Support and Services  
 Service Partners  
 Customer Operations  
 Customer Experience Measurement  
 Contract Management  
 Software Services  
 Online Services

Supply Chain:  
 Manufacturing Planning and Forecasting/Product Availability  
 Vendors/Partners/Contract Execution  
 Procurement  
 Production  
 Inventory & Capacity Management  
 Distribution Channels  
 Product Licensing/Subscriptions  
 Product Compliance  
 Software Piracy  
 Supply Chain Online and Digital Delivery  
 Vendor Quality Assurance

People:  
 Culture  
 Recruiting & Retention  
 Global Resourcing  
 Development and Performance  
 Succession Planning  
 Compensation & Benefits  
 Labor Relations  
 Employee Communications  
 Organizational Structure

Information Technology:  
 Infrastructure Resiliency and Availability  
 Data Privacy  
 Enterprise Information Management  
 Infrastructure Security  
 Information System Access  
 IT Governance

Business Continuity:  
 Natural Events  
 Information Technology Recovery  
 Business Process Recovery  
 Crisis Management  
 Human Made Events  
 Vendor Resiliency

Global Physical Security:  
 Buildings and Facilities  
 Threats of Violence  
 Incidents of Theft  
 Life Safety  
 Incident Management

Acquisition Integration

Corporate Governance:  
 Board Performance  
 Governance Framework  
 Corporate Citizenship

Legal Compliance:  
 Ethics and Business Conduct  
 Anti-Corruption  
 Fraud

Legal:  
 Contract  
 IP/Source Code Protection  
 IP Infringement  
 Piracy/Counterfeiting

Regulatory:  
 Antitrust and Competition Law  
 Export Control and Global Trade  
 Labor Laws and Regulations  
 Securities  
 Environment  
 Data Protection and Privacy  
 Product Safety

Planning & Resource Allocation:  
 Operational and Business Planning  
 Budgeting and Forecasting  
 Capital Expenditure Planning  
 Outsourcing

Treasury:  
 Cash Management  
 Hedging  
 Investing  
 Insuring  
 Funding  
 Credit and Collections  
 Securities Lending

Financial Reporting:  
 GAAP Accounting  
 External Reporting & Disclosure  
 Internal Control/SOX 404/302  
 Statutory Reporting  
 Internal Reporting  
 Information & Reporting Integrity

Tax:  
 Tax Strategy and Planning  
 Tax Optimization  
 Transfer Pricing  
 Property Taxes  
 Tax Compliance

Investor Relations:  
 Communications

Mergers, Acquisitions & Divestitures:  
 Accounting for Mergers, Acquisitions & Divestitures

Internal Audit



# ERM Setting the Stage, cont

## Improve



Areas of high risk exposure with a low level of control must be key priority for improvements in management and control activities.

## Monitor



Areas of high risk exposure where controls are deemed adequate should be monitored to provide ongoing assurance of control effectiveness.

## Accept

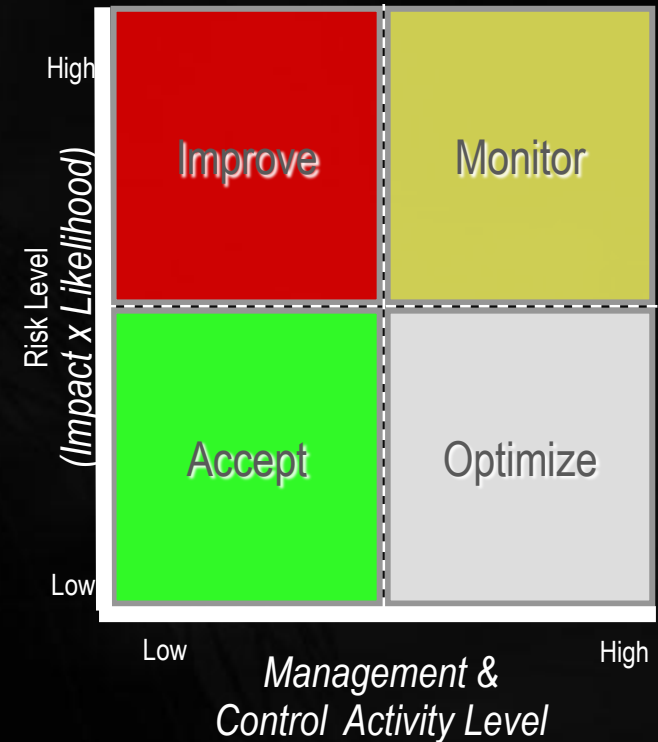


Areas of low risk exposure that also have a lower level of control may be consciously accepted by the organization.

## Optimize



Areas of low risk exposure with a high level of control may generate opportunities to optimize the management and control activities.



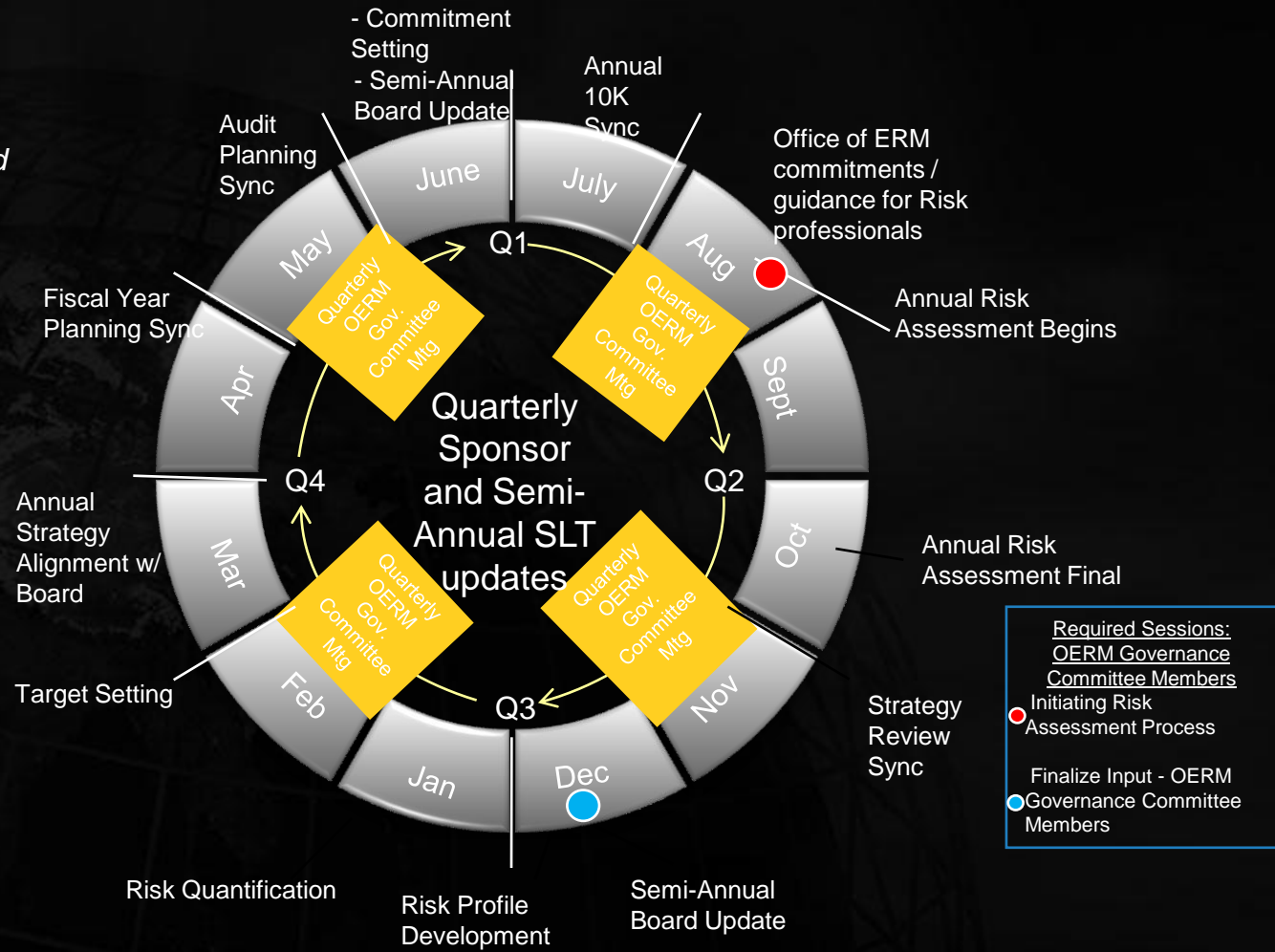
# Embedding into the Culture- OERM Rhythm of the Business

We develop, deliver and drive the implementation of the enterprise framework and governance to prepare Microsoft to address and potentially mitigate operational risks and associated impacts to our business.

Utilize a Consistent Enterprise Framework to assess impact, likelihood and level of management control for current and potential emerging risks.

Cross company visibility to critical risks for the purpose of additional support and collaborative remediation.

Establishes a rhythm to report and provide status on key risks to the organization up through division Execs, SLT and the Board of Directors.



Monthly Knowledge Transfer as well as risk update sessions are also included in the ROB



# Risk Quantification- Keys to Success

- ❑ *Map the major business process steps*
- ❑ *Estimate the value created by the business process,*
- ❑ *Estimate the probabilities of disruption from various causes over “x” years*
- ❑ *Estimate the extra expense, revenue impacts and asset devaluations arising from the disruptions,*
- ❑ *Run simulations (monte carlo as an example) to estimate magnitude of impact at various probability levels.*

**ACCOUNTABILITY**

# Best Practice Awards and Efforts



	Standard & Poor's Criteria	Microsoft ERM
Risk Management Culture	Risk Management Framework	<ul style="list-style-type: none"> <li>ERM Pillars &amp; Framework 1.0</li> </ul>
	Roles & Reporting Lines	<ul style="list-style-type: none"> <li>Board of Directors and SLT sponsored</li> <li>Roles embedded into the business</li> <li>Alignment of existing risk functions</li> </ul>
	Communication	<ul style="list-style-type: none"> <li>Quarterly Board communications</li> <li>Quarterly internal communications (formal)</li> <li>Rhythm of ERM (weekly &amp; monthly syncs)</li> </ul>
	Policy & Metrics	<ul style="list-style-type: none"> <li>ERM Program Guidelines 1.0</li> <li>ERM risk rating criteria</li> <li>Risk specific metrics (e.g. Product Quality PSAT)</li> </ul>
	Budgeting & Compensation	<ul style="list-style-type: none"> <li>Test multi-year forecast assumptions((OPEN)</li> <li>Risk specific budgeting within the business (OPEN)</li> </ul>
Strategic Risk Management	Risk Priorities (Impact, Likelihood, Controls)	<ul style="list-style-type: none"> <li>ERM risk rating criteria</li> <li>Treasury Risk Group quantification</li> </ul>
	Enterprise Risk Assessment (Frequency & Nature)	<ul style="list-style-type: none"> <li>Annual Enterprise Risk Assessment</li> <li>Rhythm of ERM (emerging &amp; updates)</li> </ul>
	Risk Sensitivity (Liability and Financing)	<ul style="list-style-type: none"> <li>Capital structure decisions (OPEN)</li> </ul>
	Role in Strategic Decision Making	<ul style="list-style-type: none"> <li>Existing strategy review process</li> <li>Integration of ERM (OPEN)</li> </ul>

The image features a dark, grayscale background of a globe with a grid of latitude and longitude lines. A horizontal, semi-transparent white bar is centered across the middle of the image. On this bar, the Microsoft logo is displayed in a bold, italicized, sans-serif font. Below the logo, the slogan "Your potential. Our passion." is written in a smaller, italicized, sans-serif font. The overall aesthetic is professional and global.

***Microsoft***<sup>®</sup>

*Your potential. Our passion.*<sup>™</sup>