

# Implementing ERM

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# Topics Today

1. Influencing Real Decisions
2. Organizational Factors
3. Showing Value

# The Goal of ERM

The purpose of ERM is to influence actual decisions and help to identify and address major risks before they cause harm.

The Risk Officer can provide information to decision makers, but they must make the final judgment how to respond

-- A key question: what is the time horizon of the decision maker?

# ERM Needs a Champion

1. A new leader from an organization with a strong risk-aware culture (e.g., DLA, OFS, Commerce)
2. A leader after an organization experiences a bad event (IRS, TSP, PenFed)
3. A savvy leader (Census, USDA-RD)
4. Often the CFO office can be a good incubator for ERM
5. Without a champion, lay the groundwork (USCIS)
6. Or bring ERM to a lower-level organization

# A Leadership Lesson from the Past

“Do not give preference to those who flatter you most; esteem those who for a good cause venture to displease you; these are your real friends...”

Louis XIV, “Instructions to the Duc d’Anjou,”  
1700

# The CRO needs Access to the Top

“Tone at the Top” is essential

Numerous counter-examples from the Financial Crisis: Unsuccessful firms frequently dismissed (Freddie Mac), sidetracked (Lehman), isolated (AIG), layered their risk officers far down in the firm (Countrywide), or otherwise disregarded them (Fannie Mae, Bear Stearns).

# Assess Your Organization

- Do you have support from the top?
- Do you have a strong unified management team?
- Or do you have a collection of “barons” and fiefdoms that creates a barrier to the flow of information about major risks?
- Can you build a constituency for ERM?
- What risks concern people?

# ERM Implementation Challenges

1. Obtaining and sustaining support from the top
2. Addressing power concentrated in silos
3. Overcoming a culture of caution
4. Reconciling roles of the risk function with those of the inspector general or auditor
5. Educating agency staff about ERM
6. Demonstrating the value of ERM

Source: Douglas Webster, *Improving Government Decision Making through Risk Management*



# Building Respect for ERM

- Working with top leadership
- Risk Interviews with Management
- Workshops (risk identification and prioritization, proposing how to address identified major risks)
- Building risk considerations into key processes such as strategic planning, performance standards, budget, and ultimately into the culture

# Group Exercise

What steps do you recommend to make ERM as useful as possible in your agency?

1. Obtaining a champion?
2. Locating the ERM function?
3. Obtaining authority to begin the process of interviews and workshops?

Do you have adequate scale to engage in ERM or is a tailored approach to risk management preferable (e.g., first applying ERM in a subordinate unit with more receptive leaders)?

# Showing Value

The CRO as business consultant:

One agency's CRO analyzed the number of contracts that would expire within the following twelve months; the large number of expiring contracts, never calculated before, seemed likely to overwhelm the contracting process.

That knowledge allowed the agency to (1) prioritize contract renewals, (2) prepare lower priority functions for possible delays in contract renewals, and (3) urge the department (which operated the procurement function) to add resources before harm occurred.

The agency now has asked the CRO to maintain a 24-month schedule of contract expirations.

# Why the CRO adds value

The CRO can add value by:

- Taking a top-level overview of agency processes and the agency environment
- Collaborating across agency silos
- Analyzing risk information
- Digesting risk information and presenting it in an executive-level form
- Bringing information about major risks to top management
- Proposing suggested priorities and useful solutions

# Communicating Effectively

The key is to talk the language of the decision maker. From an AFERM Summit, a lesson on improving organizational culture and the ability to give feedback:

- Don't tell a leader simply that: "From our analysis, here are the major risks in your favorite new initiative"
- Do offer solutions: "From our analysis, here are ways to strengthen the initiative and its success [then list ways to manage the major risks]"

From another AFERM Summit, a lesson from the Executive to whom the Microsoft CRO reports: "Don't tell me everything you can tell me; tell me what I need to know"

# ERM Tools

Effective application of appropriate tools can build credibility for ERM as a process that adds value

On the other hand: lead with the value proposition first, not the methodology of ERM

Key decisions: (1) where is quantification useful?,  
(2) what tools are appropriate to the task?



# Building a Risk-Aware Culture

- Treat reports of risk as potential inputs to be validated
  - Treat validated reports of risks as problems to be solved
  - As appropriate, facilitate constructive dialogue
  - Discourage “hide the ball” behavior
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- A possible “early win”: Recommend that all major proposed new initiatives include a discussion of (1) major risks and (2) how they will be addressed

# Measuring ERM Progress

- Non-existent or ad hoc—often characterized by reactive crisis management once something has gone wrong
- Compliance only—formal internal controls and rules to set risk limits
- Stand-alone risk management —functioning as an isolated system, reporting risks systematically but not integrated with the agency's processes and management systems; and
- Integrated risk management/ERM—risk management built into the agency's culture, processes, and management systems



# Group Exercise

## Bringing ERM to Your Agency

1. Where is your agency on the four point-scale of “Measuring Progress”?
2. What would it take to move to a higher level on the scale?
3. What are the difficulties that your agency would face in moving from today to the level of “Integrated Risk Management/ERM” (Level 4 on the scale)?
4. How would you address these barriers?
5. How long would it take for (a) your unit, and (b) your agency, to move to Level 4?