

Strategies for effective enterprise risk management (ERM) programs



The Institute of
Internal Auditors
Chicago

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Meet your presenters



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Learning objectives

1. Understanding the fundamentals of ERM
2. Learning how to design an ERM process
3. Understanding the common pitfalls to getting started and sustaining ERM over time



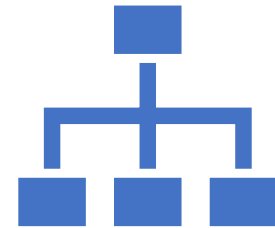
Strategies for effective ERM programs



Question:



Why should I care about ERM?

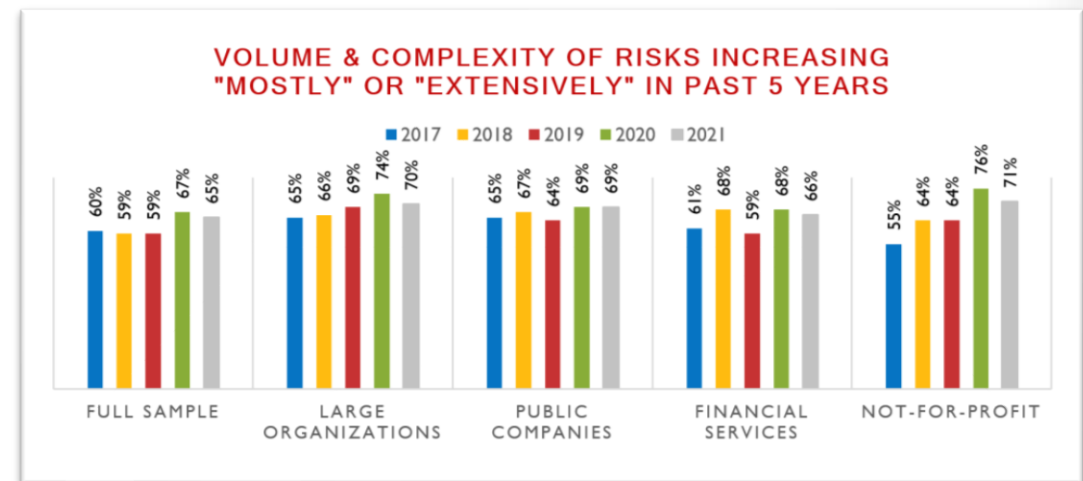
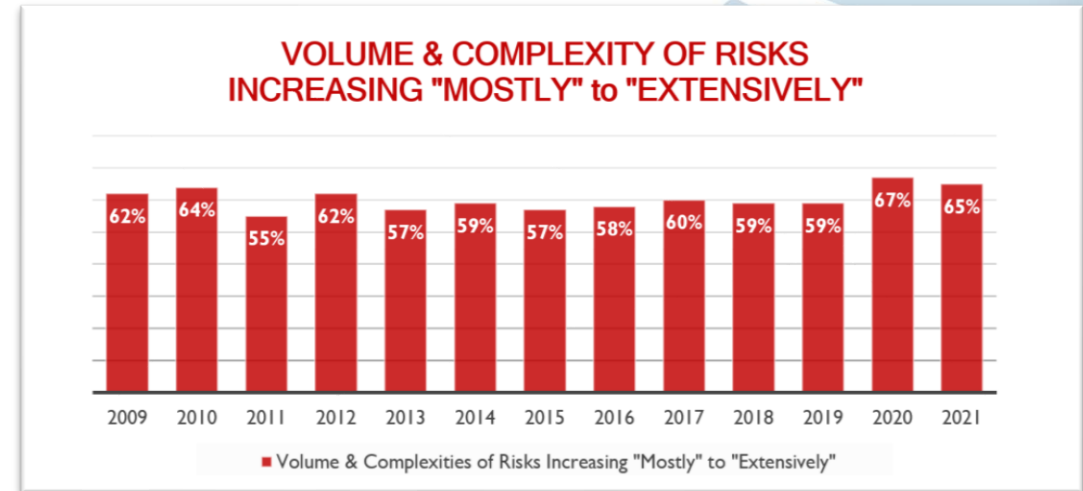


How is this different than traditional risk management?



Why should I care?

- Growing uncertainty
- No organization is immune to risk
- Risk continues to increase and get more complex
- Growing external expectations for organizations to increase senior leadership involvement in risk management
- Boards seeking more executive engagement in risk management



PERCENTAGE OF RESPONDENTS SELECTING "MOSTLY" OR "EXTENSIVELY"

Factors "Mostly" or "Extensively" Leading to Increased Senior Executive Focus on Risk Management Activities	Full Sample	Largest Organizations (Revenues >\$1B)	Public Companies	Financial Services	Not-for-Profit Organizations
Unanticipated risk events affecting organization	40%	45%	40%	36%	46%
Unanticipated risk events affecting competitors	15%	23%	22%	17%	14%
Emerging best practice expectations	32%	36%	36%	44%	33%
Emerging corporate governance requirements	25%	29%	36%	38%	21%

Benefits of implementing a successful ERM platform

- Improved business performance
- Enhanced board governance
- Improved process efficiency
- Increased protection against loss and damage to reputation
- Informed decision making
- Optimized resource allocation
- Increased transparency
- Reduced volatility and avoidance of surprises
- Proactive approach to risk management
- Consistent methodology for risk identification and mitigation
- Enhanced confidence in achieving strategic objectives



Traditional risk management vs ERM

Traditional

Manage risks in a vacuum

Occurs in siloes

Disjointed activities

Focuses on loss prevention

Consider only the downside (loss)

Reactive and ad-hoc

ERM

Analyze interrelatedness of risks across the enterprise

Spans across the organization

Embedded in culture and mindset

Focuses on business goals, reducing cost, adding value, preserving value

Consider both the upside (opportunities) and downside

Proactive and continuous

Top efforts inspiring leadership to implement ERM

- More happening
- Things moving faster
- Board support
- Strategic program focused on critical risks
- Accountability
- Relationship building and collaboration



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Question:



Is ERM applicable to smaller and less complex organizations? **Yes!**



Does application vary by industry? **No!**



Do I need to have sophisticated processes in all areas of risk management to realize the benefits of ERM? **No!**



Is ERM a one-size fits all approach? **No!**



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Question:



How do I get an ERM process started?



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Eight practical steps to get started

- 1 Consult an ERM expert
- 2 Develop the risk management vision and articulate the value proposition
- 3 Gain support from the board and executive leadership
- 4 Assign an ERM champion, get stakeholder involvement, establish effective oversight and governance
- 5 Provide ERM training to adopt a common language
- 6 Conduct an enterprise risk assessment
- 7 Focus on the major risks, define the specific capabilities (inventory existing risk management activities) around managing the priority risks
- 8 Advance the risk management capability for one or two priority risks



Example client ERM journey

Involved external experts as educator, facilitator, evaluator

Performed ERM training

Developed the ERM vision

Obtained buy-in from board and executive leadership

Organized an ERM committee, meet periodically with structured agenda

Performed an enterprise risk assessment, and refresh every 18-24 months

Periodically evaluate current risk management capabilities and possible gaps

Developed risk summaries owned by risk sponsors of key enterprise risks

Report quarterly to management and audit committee

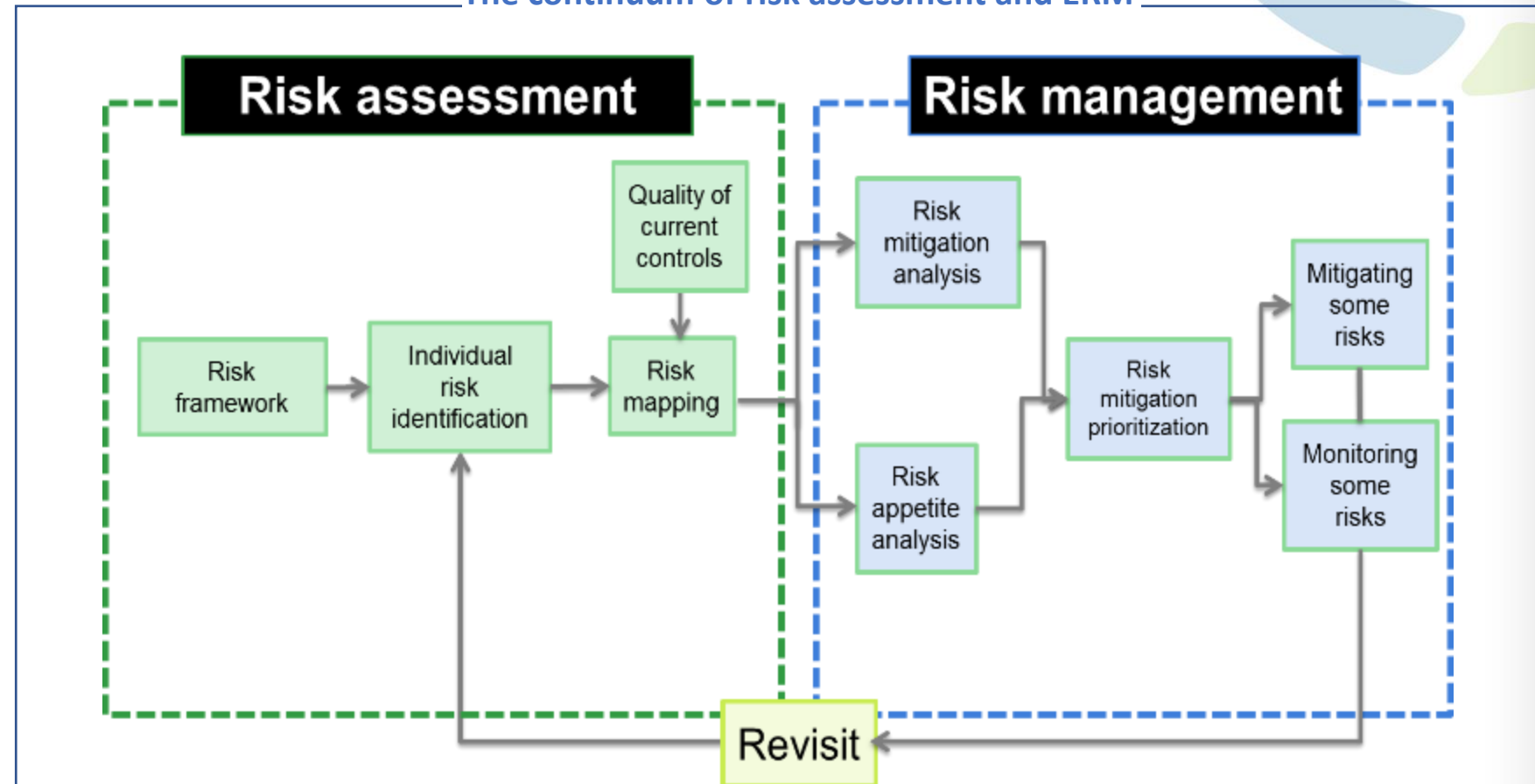
Report annually to board

Example client ERM proposition and continuum

The continuum of risk assessment and ERM

Goal of ERM at example client:

Provide strategic, performance focused review of the Company's key risk areas across the enterprise in order to align risk management capabilities with top enterprise risks to enhance overall business strategy.



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Question:



How do I best obtain buy-in from executive leadership?



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Seven practical steps to gain “buy-in”

- 1 Do not make ERM an appendage or overlay, avoid the urge to view this as a “project”
- 2 Co-develop with executive management the business case (i.e., why improving risk management is the only option)
- 3 Curate a vision, articulate the “what’s in it for me”
- 4 Set realistic goals in year 1, 2, 3, etc.
- 5 Develop a clear roadmap
- 6 Establish periodic check-ins with management and risk committee
- 7 Use sound project management techniques

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Question:

Who should participate in ERM?

What is the role of internal audit?



Everyone who matters within an organization should participate to some extent!



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Role of internal audit

Educator

Facilitator

Coordinator

Integrator

Evaluator

Roles not to take

- Setting risk appetite
- Authorizing or dictating implementation of risk management processes
- Assuming role of management
- Making decisions on risk responses
- Implementing risk responses
- Accepting accountability for risk management



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Question:

How do I conduct an enterprise risk assessment?



Key attributes to an effective risk assessment

1

Keep it forward-looking

2

Establish an articulated objective statement

3

Incorporate the notion that risk includes upside as well as downside

4

Focus on the inherent risk, not the residual risk

5

Adopt common, relevant risk categories

6

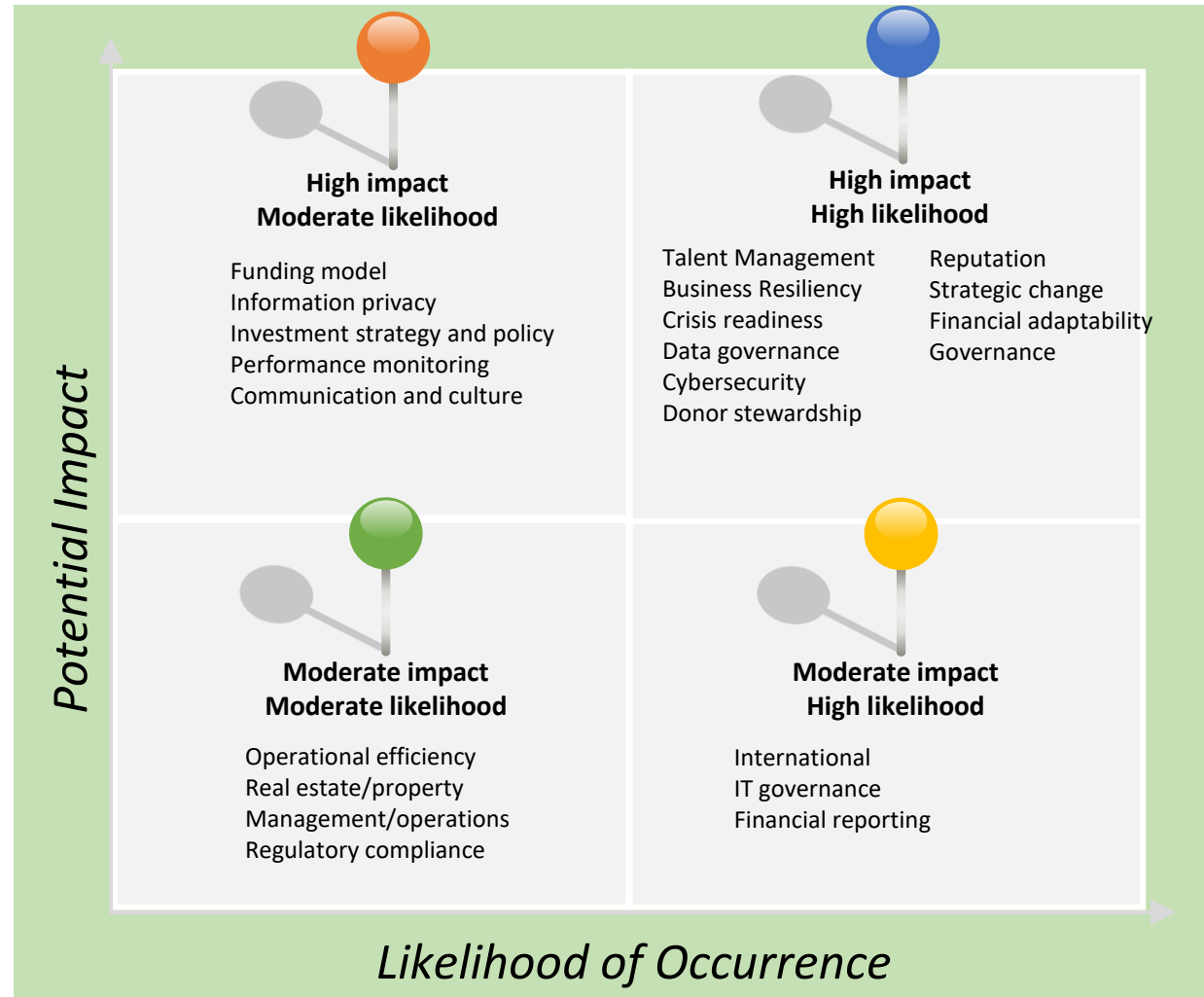
Consider risk mapping (likelihood vs impact)

7

Use combination of interviews, online surveys, document reviews, and facilitated workshops



Example risk map



Common pitfalls during risk assessment process



Lack of clarification or common understanding (objectives risk, assessment criteria, time horizon, etc.)



Not including all stakeholders



Not considering or given appropriate weight to knowledgeable positions



Failing to structure the meeting agenda for success



Not encouraging open communication



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Question:



What are the pain points for implementing ERM?



How do we solve for these?



Barriers to ERM implementation

PERCENTAGE IDENTIFYING EACH AS A BARRIER TO ERM IMPLEMENTATION

Percentage of respondents who describe each of the following as being a "barrier" or "significant barrier" to effective ERM	Full Sample	Largest Organizations (Revenues >\$1B)	Public Companies	Financial Services	Not-for-Profit Organizations
Competing priorities	44%	35%	36%	47%	50%
Insufficient resources	43%	41%	40%	43%	52%
Lack of perceived value	28%	31%	27%	25%	29%
Perception ERM adds bureaucracy	24%	25%	23%	21%	26%
Lack of board or senior executive ERM leadership	21%	18%	19%	16%	22%
Legal or regulatory barriers	6%	3%	4%	6%	6%

PERCENTAGE OF RESPONDENTS SAYING "MOSTLY" OR "EXTENSIVELY"

Percentage of respondents indicating that each of the following "Mostly" to "Extensively" is impeding risk management progress	Full Sample	Largest Organizations (Revenues >\$1B)	Public Companies	Financial Services	Not-for-Profit Organizations
Risks are monitored in other ways besides ERM	29%	28%	18%	30%	24%
Too many pressing needs	16%	21%	26%	19%	19%
No requests to change our risk management approach	19%	17%	23%	12%	21%
Do not see benefits exceeding costs	13%	17%	12%	15%	12%
No one to lead effort	12%	9%	12%	7%	16%
Would overcomplicate what can be best done <i>ad hoc</i>	11%	8%	9%	17%	8%

Key behaviors to break down barriers

Promotion
influenced by
“what’s in it for
me”

Avoid lip service

Adequate attention
by stakeholders

Assignment of
responsibility to
individual units

Slow and steady
wins the race

Integrate with
business issues on
the executive
agenda

Define roles and
responsibilities



Stay in touch



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