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Adapting ERM Program for Growth

What have agencies learned from implementing ERM?

As shown at right – agencies across the Federal government have made progress in implementing ERM. However, it's also the case that most ERM programs remain small while expectations for how to deliver value remain high – including driving performance outcomes and changing organizational risk culture. Many agencies have realized the process is not as simple as following a static roadmap or maturity model. Agency programs need to continuously adapt and innovate to maintain momentum, or they run the risk of plateauing or stagnation. By recognizing the challenges facing an ERM program and adapting to those challenges, ERM leaders can be better positioned to grow their programs.

Fast Facts: Three key takeaways from the 2020 AFERM 2020 Annual Survey [1]

- ***ERM has arrived –*** *most survey respondents (83%) reported that their agency now has an ERM program, while only 3% reported that their programs were established in the preceding calendar year.*
- ***ERM programs remain small –*** *93% of respondents reported ERM programs with <10 staff (including contractor support) and 84% described having a budget of <$1M.*
- ***Expectations remain high for ERM –*** *the top two priorities for how ERM can create a positive impact in the organization include:*
    1. *Make clear linkage, alignment, or integration of risk with strategy and performance; and*
    2. *Drive cultural change to accept risk as part of day-to-day business*

Why is there a need to adapt?

In many agencies, ERM is a critical point of connectivity and information filtering between organization leadership, CXOs, and other program and functional leaders. This role requires ERM programs to continuously maintain the interest of leaders who may have different objectives, priorities, and responsibilities. Leaders, particularly new leaders, may prioritize showing immediate results while other leaders may focus exclusively on a single initiative or be pressured to improve program delivery with fewer resources.

Below are three "realities" and associated challenges that force ERM programs to adapt what they do and how they do it:

E 1. Being realistic about the "E" (enterprise)

Ideally: People from each program and office help build a risk-aware culture using consistent practices.

Reality: Programs and functions are focused on managing their own risks internally, outside of ERM.

A. ERM may overlook on-going risk response activities and program/office efforts may be unrecognized.

B. Management of enterprise risks is seen as something separate, on top of program/office-level efforts.

C. Agencies are swimming in data that programs/offices may be reluctant to share if its usage is unclear.

R 2. Getting leadership to embrace "R" (risk)

Ideally: Senior leadership understands the value of ERM and provides regular, visible "tone at the top."

Reality: Leaders have competing priorities, limiting their ability to actively champion ERM.

A. Political appointees' average tenure is 18 months. Leaders frequently turnover and those acting between appointees may be reluctant to make the major changes or decisions ERM often requires.

B. Front-line programs did not play major roles in implementing Circular A-123 before the inclusion of ERM and senior leaders may not be able to differentiate ERM from internal controls.

C. Enterprise governance is a challenge, limiting the authority to drive risk management decisions.

M 3. Making an impact on the "M" (management)

Ideally: Risk owners take action to manage risks and report results that ERM governance bodies monitor.

Reality: Risk owners lack resources to drive net new action; ERM lacks authority to compel risk response.

A. Risk profiles often include persistent issues whose management and mitigation have not been effective.

B. Programs and offices may help identify risks, but participation wanes later in the ERM cycle.

C. Without quantifiable results shared via ongoing reporting, leadership may not embrace ERM.

[1] Association for Federal Enterprise Risk Management, https://www.aferm.org/about/surveys/

Adapting ERM for growth

Finding new value:
How ERM can help organizations through presidential and senior leader transitions

- ***Risk profiles*** show risk exposure across the agency in a prioritized, portfolio-based view ready for an executive audience.
- ***Risk appetite and tolerance*** can communicate historical patterns on what risks are acceptable, which are not, and how these align to existing strategy.
- Put ERM to work ***managing risks to new priorities*** in order to maintain or develop executive sponsorship with new leadership.

ERM programs face challenges inherent to most organization-wide endeavors that unify disparate siloes under common governance and processes. Rather than fighting these challenges by sticking to the textbook approach, ERM programs can be more effective by acknowledging the realities of organization-wide endeavors and adapting their methods to respond to the associated challenges.

The table below describes ways ERM programs can adapt to each of the challenges listed on the previous page.

E ***1. Being realistic about the "enterprise"***	
A. Showcase risk management achievements	Use ERM to showcase program-level success stories, providing an avenue for programs to receive recognition for managing their own risks, make their case for additional funding, and share leading practices across the organization. Highlight the performance gains when program-level risks are managed well or use ERM to connect the dots where programs managing the same risks could benefit from shared solutions (and shared costs).
B. Invest in relationships	Build relationships of trust with programs so they willingly share data in return for services such as risk sensing, analytics, and other tools from the ERM team. Give flexibility to manage risk as program requirements demand, while showing the value of transparency and sharing.
C. Find an ambassador	Work with an influential program leader who understands ERM and is willing to devote their program's time and energy to support ERM. Cultivate at least one of these relationships to develop an ambassador who demonstrates the value of ERM and advocates for it.
R ***2. Getting leadership to embrace "risk"***	
A. Frame decisions as risk-based	Highlight gaps where action that may be needed has slowed, is ineffective, or is not planned or funded and use simple memos/business cases to elicit binding decisions to compel the desired action and resourcing.
B. Integrate	Inject risk discussions into other management forums that leaders already attend to make it easier for new appointees to actively participate in ERM.
C. Communicate	Provide leadership with compelling, easy to understand evidence showing impact on the mission due to ERM and other, risk management activities. Compliance is a by-product.
M ***3. Making an impact on risk "management"***	
A. Offer an ERM PMO	Drive the implementation of risk response plans by combining project management techniques with ERM methods to help plans stay on time and on budget, measure and report progress on Key Risk Indicators (KRIs) and Key Performance Indicators (KPIs), and manage execution risks that could limit the plan's impact.
B. Coordinate funding for response plans	Assess and prioritize risks identified by programs to determine the most critical risks facing the organization. Develop response plans for priority risks and coordinate with the budget process so decisions can be made to fund the necessary activities, initiatives, or controls.
C. Connect data sources	Use technology to integrate a wider range of existing internal and external data (and move away from manual data calls in spreadsheets) to generate evidence-based risk analysis and targeted response activities that build senior leaders' commitment to ERM.

Questions?

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