Effective ERM Fosters Good Discussion about Key Risks

Putting in place and maintaining an ERM program can seem to be a daunting undertaking, but reaping some significant benefits from your ERM process doesn't have to be that hard. If you can get a good discussion going about some of your organization's most pressing risks then you have added tremendous value by fostering heightened awareness as well as broadened perspectives on those risks.

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MISSING THE FOREST FOR THE TREES

All too often, I see risk professionals caught up in developing a comprehensive "risk inventory" delving into a myriad of details on potential risks and mitigation plans. Sometimes in this process we lose the forest for all the trees. It can result in too much focus on compliance and loss prevention while giving potentially more significant strategic risks short shrift. In addition, the perception of the risk function may suffer as such an exercise could lead to ERM being regarded as more of a bureaucratic process without any potential to add value.

THE GOAL: CANDID DIALOGUE ABOUT TOP RISKS

I believe the most critical element of an effective ERM process is candid dialogue about the most significant risks an organization faces, its appetite for risk-taking and its ability to respond to those risks. Like so many things in business, keeping it simple and focusing on the big picture are the keys to having a good discussion about risk.

It will be difficult to get a dialogue going if participants are either overwhelmed with too much information or believe that they are being dragged into the weeds on seemingly insignificant issues. I have seen this in practice where a well-intentioned ERM leader shares a detailed risk register with senior managers and the board, expecting to have a great discussion about the risks the organization faces and instead encounters either silence or a discussion focused on a single known risk that everyone can easily relate to (like a natural disaster) instead of tackling some of the more difficult strategic risks that need to be addressed.

TIPS FOR ENGAGING EXECUTIVES IN ROBUST RISK DISCUSSIONS

ERM leaders have shared insights with me about what they see as critical elements of a good conversation about risk. Here are some of their tips:

- Share information,
- Organize that information to provide a strategic context,
- Consider some ways to measure the risk, discussing potential solutions,
- Create awareness, and
- Identify follow-up action items.

ERM leaders have also highlighted the importance of framing the discussion so that it starts off in the right direction. Some suggested risk conversation starters in a group setting might be:

What is the most significant strategic or competitive threat to the success of our organization's strategy?

"Did anyone see another risk as their #1 top risk concern, and if so, which one? Why?

This discussion will broaden the group's perspective of risks and may even result in a re-ranking of the risks. Similar versions of those questions can also be used for one-on-one discussions.

SETTING THE RIGHT TONE

ERM should be implemented in the way that works best for your organization to provide the information needed for management and the board to make better, more risk-informed, strategic decisions. Proponents of ERM stress that the goal of effective ERM is not to lower risk. Rather, ERM is designed to help executives manage risks more effectively on an enterprise-wide, holistic basis so that stakeholder value is preserved and grows over time. In other words, ERM allows management and the board to appropriately weigh risks against potential rewards.

EFFECTIVE ERM FOSTERS GOOD DISCUSSION ABOUT KEY RISKS

The ERM leader needs to set the vision for ERM to be seen in that way. Ultimately, the board and senior executives, with the guidance of the ERM leader, must set the appropriate tone for an open dialogue about the risks an organization faces, its appetite for those risks, and its plans for managing those risks.

IMPLEMENTING EFFECTIVE ERM PROCESSES

Many organizations are starting to consider implementing ERM or are in the beginning stages of an ERM process. The following are some keys to implementing an effective ERM process based upon "lessons learned" at organizations that have successfully implemented ERM:

- **Strong senior management support for enterprise risk management**
    - » Candid conversations about risk among senior managers and board members.
- **Simplicity at the outset** — initially use qualitative measures, not complex quantitative measures
    - » Start by creating risk awareness and probing for emerging risks through discussion and dialogue.
- **Build on tools that are already in place**
    - » Value can be created and cost minimized when you connect existing "silos" of risk management (for example, health and safety, insurance and compliance functions) to leverage current efforts and build an enterprise-wide view of risks and approach to risk management. Bringing functional leaders together to engage in conversations about top risks in their "silos" can go a long way in generating great enterprise-level risk insights.
- **Plan for your ERM process to evolve over time**
    - » ERM is not a project or a fad, but will evolve over time as your organization buys into the process and becomes more sophisticated in its approach to managing risks. So, don't overcomplicate things too soon.
    - » If you have already implemented ERM, periodically re-evaluate your processes to make sure you're focused on the most significant risks facing your organization, and that your ERM process is seen as a valuable partner in helping your organization reach its strategic goals.

CONCLUSION

Increasingly organizations are realizing that their current processes are inadequate to manage the complexities of the global business environment. Managing risks informally or on an *ad hoc* basis may no longer be acceptable given the increased expectations for effective risk management processes being placed on senior managers and their boards. Adoption of ERM can address emerging expectations for improved risk management in a way that can also add value by improving risk awareness within the organization and focusing attention on the risk/reward relationship. Effective ERM implementation can start very simply, with a candid conversation about the risks the organization faces in pursuit of value.

ABOUT THE AUTHOR

Bonnie V. Hancock, M.S., is the Executive Director Emeritus of the ERM Initiative at NC State University where she recently taught graduate courses in the Poole College of Management. Her background includes various executive positions at Progress Energy where she has served as president of Progress Fuels (a Progress Energy subsidiary with more than $1 billion in assets), senior vice president of finance and information technology, vice president of strategy and vice president of accounting and controller. She currently serves on the board of HomeTrust Bank and AgCarolina Farm Credit Association, and has previously served on the boards of AgFirst Farm Credit Bank and Powell Industries, a publicly traded company based in Houston, Texas. In addition, she currently chairs the finance committee of Girl Scouts-North Carolina Coastal Pines, and formerly served on the board of the Research Triangle Chapter of the National Association of Corporate Directors.

ABOUT NORTH CAROLINA STATE UNIVERSITY'S ENTERPRISE RISK MANAGEMENT (ERM) INITIATIVE

The Enterprise Risk Management (ERM) Initiative in the Poole College of Management at North Carolina State University provides thought leadership about ERM practices and their integration with strategy and corporate governance. Faculty in the ERM Initiative frequently work with boards of directors and senior management teams helping them link ERM to strategy and governance, host executive workshops and educational training sessions, and issue research and thought papers on practical approaches to implementing more effective risk oversight techniques (www.erm.ncsu.edu).