



National Academy of Public Administration/Ernst & Young LLP panel
"From Enterprise Risk Management to Risk-Enabled Performance – a Conversation with Leaders."
May 7, 2014



Background

On May 7, 2014, the National Academy of Public Administration and Ernst & Young LLP held a panel discussion titled "From Enterprise Risk Management to Risk-Enabled Performance – a Conversation with Leaders." The theme of this event — using risk management to enable improved program outcomes — focused on achieving a holistic approach to managing an agency's performance by leveraging risk-enabled methods and tools.

This paper provides an overview of insights that enterprise risk management (ERM) leaders, representing both the public and private sectors, discussed during the panel; it is arranged topically by questions addressed during the discussion. These experts concluded that integrating performance and risk management practices provides greater visibility into uncertainties, enabling better decision-making and improved results. As one panelist stated, "I do not know how to achieve performance goals if you are not thinking of risk."

The panel, introduced by Academy President and CEO Dan Blair and moderated by Academy Fellow Linda Springer, Ernst & Young LLP Executive Director, Government and Public Sector Practice, included:

- Fred Anderson, Chairman, Risk Management Committee, and Senior Advisor to the Chief Operating Officer of Federal Student Aid of the U.S. Department of Education;
- Craig Faris, Ernst & Young LLP Global Lead for Emerging Risk Services and former Global Director of Enterprise Risk Management for Wal-Mart;
- Dr. Karen Hardy, Deputy Director Risk Management, U.S. Department of Commerce; and
- Chris Mihm, Academy Fellow and Managing Director of Strategic Issues, Government Accountability Office.

What is the incentive for linking performance and risk management?

Linking performance and risk management is critical for optimizing results. Three fundamental incentives for linking the two are to:

- Increase the line of sight at the highest levels of management to facilitate a better understanding of issues and uncertainties;
- Embed risk management into processes and key decision-making to create value for the organization proactively, before risks materialize; and
- Position ERM to be viewed as a means to optimize performance and protect the organization, not just as a compliance program.

These drivers have broad applicability for both federal and commercial organizations.



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The link between ERM and performance is also motivated by other influences. One of those is change. Both internal and external environments are increasingly volatile and fast paced. Federal and commercial organizations are also dealing with increased transparency demands for greater visibility into what they do and are continuously trying to be more efficient and effective. Even organizations with established ERM programs are not getting the full value if they are only looking at the downside of issues without any consideration for understanding and managing the upside.

Increased commitment to ERM to improve performance is driven by leadership at the highest levels. A cabinet secretary's private industry experience of moving ERM into the culture and operation of an organization can be a significant driver in setting expectations at the agency. In other situations, the endorsement of the secretary is combined with the incentive of a congressional mandate. Such a directive may focus on becoming compliant with certain risk management thresholds due to the introduction of new processes and requirements and the associated inherent risks. As a result, risk management is widely discussed with the secretary and at the department level, as well as across all components of the agency and its people.

Additionally, organizations are increasingly dependent upon external partners, and any key partner or element outside the internal network can impose unexpected risks. This creates another incentive for understanding and managing these external risks that otherwise might prevent achievement of performance goals. As the environment in which agencies operate becomes increasingly complex, managing risk across the enterprise provides a better view of which risks to mitigate and which can be leveraged to improve program outcomes.

Who are the key leaders for this initiative (e.g., Chief Risk Officer, Performance Improvement Officer, Chief Financial Officer)? How should they collaborate?

Ownership for integrating risk and performance management should begin at the top of the organization. Senior leaders establish the risk appetite and give permission for subordinate levels of management to take informed risks that support reaching higher performance levels.

In the private sector, there often is significant involvement from a number of parties, including the Chief Financial Officer (CFO), Head of Audit and Compliance, Treasurer, as well as the Chief Risk Officer (CRO), and other key leaders. Likewise, there is no single answer within the federal government. CFOs often serve as Performance Improvement Officers (PIO) and collaborate directly with CROs if the position exists. Reflective of the historic focus on risk and internal control that resides in the Office of the Chief Financial Officer (OCFO), CROs are sometimes part of that office. A leading practice is found at an agency that considers itself a performance-based organization and includes business performance managers as an integral part of the risk assessment process.



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Each agency needs to assess its culture, organizational structure and decision-making processes to determine where to assign direct ownership for ERM integration. It is important that these leaders are positioned to facilitate an open dialogue on the opportunities for risk-enabled performance improvement, in addition to addressing the downsides of risks. Collaboration is critical as internal transparency about new risk scenarios, as well as business-as-usual risks, increases.

Ultimately, the risk and performance management linkage is not owned by one individual. Success will be evidenced by engagement that permeates the organization, resulting in programmatic creativity and initiatives that are informed by the greater understanding and management of risk.

What is your advice for integrating the consideration and management of risk in strategy setting, achievement of goals and objectives, performance optimization and project management?

It is important to start the process early, long before a strategy is formed, with some foundational steps. The first step is a validation of the “tone at the top”: that key stakeholders and leadership understand the value of integrating risk into strategy setting. Occasionally, there is a perception that risk is bad, and there may be resistance to an open dialogue about risk from operational and program managers who might be protective of business practices. Accordingly, a preliminary step is to address this issue by changing the dialogue from “risks” to “uncertainties.” By focusing on identifying uncertainties, managers could be more willing to participate, and the result will in fact be an articulation of risks that will inform the planning process.

As the integration process begins, the risk discussion needs to be kept from becoming too complex. It is helpful to identify aspects of risk management that can be easily embedded into business processes, so they become a natural part of those processes. It is important to find pockets of an agency that are experienced with risk management and appreciate the potential for using it to enable improved performance. These anchor areas can be valuable champions, helping to raise awareness on the value proposition for their units. Performing a pilot in a small area and producing a tangible product can increase support and acceptance by facilitating the discussion of risks and opportunities.

Executives who drive these processes should look and plan for both the long and short term. Tying performance metrics and incentives disproportionately to short-term performance could encourage managers to take actions that introduce risks that may be detrimental to the organization.

A logical point for integrating risk knowledge into performance planning is during budget formulation, when the impact of program funding scenarios is being evaluated. There are several other opportunities for federal agencies to incorporate risk insights in performance discussions. Periodic reviews of strategic objectives during which project risks and uncertainties are communicated are important avenues for considering how to achieve performance levels while addressing those risks. Quarterly reviews of cross-agency priority goals afford another opportunity to leverage risk insights as agencies conduct goal achievement risk assessments.

Another quarterly discussion centers on an agency’s priority goals. Here as well, agency leaders can engage with managers to explore opportunities for integrating risk and performance management.



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In addition to the obvious assessment of program performance and outcomes, how is success in using risk management to enable improved performance measured?

As risk management and its accompanying insights become embedded in performance management, organizations begin to demonstrate certain characteristics. First, performance metrics become linked to risk appetite. Before developing a risk appetite, however, management is challenged to consider how it will use that risk appetite in the context of performance. In that way, it becomes much more meaningful and relevant to the range of possible outcomes.

Similarly, more expansive use of ERM insights leads to an open dialogue between risk leaders and senior leadership, rather than a one-way reporting of risk assessments. Operational and program managers begin to incorporate risk analytics and behaviors into their planning and metrics in a proactive, self-sustaining manner. Risks are linked to strategic objectives and then aligned and reported on — in the context of program performance — as progress data is captured. Key risk indicators are established and used to maximize performance, as well as to indicate advance signs of not achieving strategic objectives.

Focusing on risk-enhanced performance fosters innovation. People who are comfortable thinking out of the box and doing so quickly can leverage insights from risk management to brainstorm new ways to achieve outcomes and sharpen expectations. There is greater clarity about what lies ahead, what is being done about it and the measures to gauge if the organization is moving in the right direction.

Conclusion

Experience has shown a costly failure in assuming that if risk is not seen, it is not there. Similarly, overreliance on historical data has led organizations to miss, or marginalize, emerging risks. Environmental changes and other unforeseen or underappreciated issues became the basis for ill-informed decision-making.

Without robust, real-time monitoring practices, organizations develop deficient estimates of critical business factors, such as time to perform, demand, cost, and resource needs. Not only do they fail to understand their circumstances sufficiently to mitigate risks, but also opportunities to improve performance by leveraging timely, risk-adjusted profiles are missed.

Assessing risks, including the risk of the status quo, represents the next step in enhancing performance. Integrating risk in the rhythm of all management and program areas is critical to improving alignment, cooperation, prioritization and, ultimately, mission execution. When planning is informed by an aggregation of insights that are uniquely understood through the ERM process, improved outcomes can be achieved.