CEB

WHAT THE BEST COMPANIES DO

CEB Risk Management Leadership Council

ERM Foundations

Implementation Guidance to Build an Effective ERM Program

Preview Report

The full report provides specific practices, approaches, and tools to:

- Establish ERM governance;
- Accelerate ERM leader effectiveness;
- Engage stakeholders; and
- Execute the ERM life cycle.

EXECUTIVE SUMMARY

Four Key Priorities

CEB recommends that members concentrate on four key priorities to establish strong foundations for an ERM program. Success in these four priority areas will ensure ERM is able to fulfill its core responsibilities and deliver value to the organization.

- **Establish ERM Governance:** This approach frames ERM's scope, role, and vision. It is important to articulate and document a governance structure for ERM even if the risk framework and responsibilities of the risk stakeholders will change over time.
- **Accelerate ERM Leader Effectiveness:** Because of the program's relatively recent ascendance, heads of ERM come from a variety of backgrounds. In the early stages of ERM, define the program head's key responsibilities. ERM leaders should then carefully assess their readiness to fulfill these specific responsibilities and address any skills gaps.
- **Engage Stakeholders:** Being a relatively new program, ERM cannot assume there is support or understanding of the program. To succeed, ERM needs to establish buy-in from various stakeholders. The program needs to engage both the board of directors and senior management to clarify its mandate and expectations. However, the program needs to reach out beyond these core stakeholders to other groups within the organization to build support and demonstrate value.

  Engaging other functional leaders who direct other risk and control processes across the firm will help ERM's integration to the firm. Also, given the role heads of business units and line management play in the risk life cycle—in identifying, reporting, and treating risks—ERM's success is built on its close cooperation with the business. Engaging business unit leaders will make risk assessments and reports more robust and make the business beneficiaries of, as well as contributors to, the ERM process.
- **Execute the ERM Life Cycle:** ERM's ability to assess, treat, monitor, and report the top risks will be the primary barometer by which ERM will be judged in the early stages of the program. Getting this core ERM process correct the first time will enable ERM to quickly gain credibility and obtain support from across the organization. If ERM underperforms and the risk life cycle only becomes a check-the-box exercise, the program will become marginalized.

COMMON ERM PITFALLS

Our research identified a number of common pitfalls that plague many organizations and stall ERM maturity.

Pitfall	Description	Solutions
1. Becoming Misaligned with the Executive Team and Board	Because ERM is still emerging, senior stakeholders—as well as the head of ERM—have limited experience with the practical implementation of the program. Some heads of ERM complete their risk assessment and prepare board reports only to find they haven't addressed the board's top concerns.	See Full Report
2. Assuming Support Will Trickle Down in the Organization	Heads of ERM often focus on building support for the program from the executive leadership team and board. But despite senior leader buy-in, heads of ERM often find that the lack of enthusiasm from business unit leadership and line managers is a barrier to success.	See Full Report
3. Being Too Process Oriented	The head of ERM's greatest fear is typically that ERM is viewed as just another check-the-box exercise or low-value administrative initiative.	See Full Report
4. Imposing a Risk Process That Conflicts with Existing Organizational Practices	For most organizations, risk management has occurred in some form for years, with business units or central functions managing their own potential problems. ERM may inadvertently impose a second layer of risk processes, thereby clashing with an already established culture of risk mitigation.	See Full Report
5. Reporting Too Many Risks	Organizations can easily fall into the trap of tracking too many risks at an early stage. Remember the E in ERM (E is for enterprise) and focus on the most potent threats.	See Full Report
6. Striving for Greatness Too Soon	Trying to establish ERM as extremely quantitative too early—either through KRIs or a formal risk appetite statement—or trying to create a risk culture asks business leaders to put trust in ERM before they completely understand its potential. Premature attempts at advanced capabilities can undermine ERM across the firm.	See Full Report
7. Failing to Track Risk Events as They Occur	Organizations that don't track when risks occur lose an opportunity to validate their assumptions and ERM's purpose.	See Full Report

SETTING AN AGENDA

ESTABLISH ERM GOVERNANCE

Action 1: Determine the Optimal Reporting Relationship

Action 2: Develop a Risk Management Framework

Action 3: Establish a Risk Committee

Action 4: Create an ERM Implementation Plan

Action 5: Benchmark ERM's Performance

ACCELERATE ERM LEADER EFFECTIVENESS

Action 6: Establish Goals for Personal Effectiveness

Action 7: Know ERM's Responsibilities

ENGAGE STAKEHOLDERS

Action 8: Clarify Board and Senior Leader Expectations

Action 9: Build Buy-In from Line Management

Action 10: Collaborate with Other Corporate Functions

EXECUTE ERM LIFE CYCLE

Action 11: Take Stock of Current Risk Processes

Action 12: Identify the Risk Universe

Action 13: Select Your Assessment Methodology

Action 14: Support Risk Mitigation

Action 15: Track Risk Events as They Occur

Action 16: Prepare for ERM Reporting

Note: Action step ordering is incidental and should not be interpreted as a suggested ordering of the process.

[1] Pseudonym.

TAKE STOCK OF CURRENT RISK PROCESSES

Action 11

To prepare for an assessment, ERM should first analyze how the business already performs risk management.

- This practice will help ERM adapt its approach to risk assessments and inform the types of support it should provide.

Benefits of Assessing Risk Mitigation Process

- ✔ Prevents the duplication of risk mitigation practices
- ✔ Able to accurately understand current levels of residual risk
- ✔ Understand how risks and problems are identified and dealt with in business
- ✔ Opportunity to engage business and line leaders

Lambda[1] asked business unit managers and their reports four questions at the beginning of ERM to identify current risk processes. With this information it was able to craft support materials such as trainings and standard procedures for risk management.

Lambda's[1] Four Questions

1. What is the process for reporting risk events within the business?
2. How are risks currently identified?
3. What do we do to manage risks effectively now?
4. Where are the opportunities for improvement?

Source: CEB analysis.

Methods of Mapping Risk Processes

Conduct Discussions with Business

Meet with business leaders and other stakeholders to discuss their preexisting risk management process.

This can be in same meeting when you explain ERM but should come prior to an assessment, as current practices may inform how you design your assessment.

Review Past Audit Assessments

Review past audits of businesses or functions to see how it has dealt with risk in the past.

Source: CEB analysis.

[1] Pseudonym.

"After conducting a few interviews where I asked these four questions, I was able to identify common themes and create common processes, procedures, and tools that would be applicable to multiple functions and business units of various sizes and complexities."

Head of ERM and Group Compliance Officer

Reporting should accomplish multiple communication goals that reduce residual risk.

PREPARE FOR ERM REPORTING

Action 16

What risk-related information should be in a report?

Updates on Top Risks

Inform the board if risk events become more likely or potentially more severe.

Updates on Emerging Risks

Political unrest, financial issues at key suppliers, production costs change—the board of directors should be aware if any unforecasted events change the organization's risk profile.

Updates on Mitigation Efforts

Provide updates on changes to risk mitigation practices that may affect the organization's residual risk profile.

Deep Dive into Specific Risks

Some organizations provide a quarterly in-depth account of a single risk, exploring key drivers, inflection points, and then mitigation and continuity efforts that are in place.

Source: CEB analysis.

✔ **Establish a Clear Understanding**
Include an overview of ERM and key processes. The board should know the methodology used to source risks and the ERM process used at the organization.

✔ **Ensure Right Audience**
Which board committee should ERM report to? One member described a scenario where ERM reported to the board's audit committee, but members of other subcommittees kept showing up to the meetings. ERM now reports on risks to the full board.

✔ **Highlight Your Contribution**
Be sure to highlight ERM's value; this is your opportunity to underscore your contribution and unique perspective on risks.

Helpful Tip

When reporting on risks, be sure to articulate risk interdependencies.

Despite a major overlap between the information presented in board- and executive-level risk reports, the level of granularity in the reports differs.

- Eighty-two percent of ERM programs report to the full board, and 94% report to an executive-level risk committee.

Year-Over-Year Trending

Organizations without risk committees—whether at the board or executive level—are becoming increasingly rare.

PROFILES OF BOARD AND EXECUTIVE REPORTS

Action 16

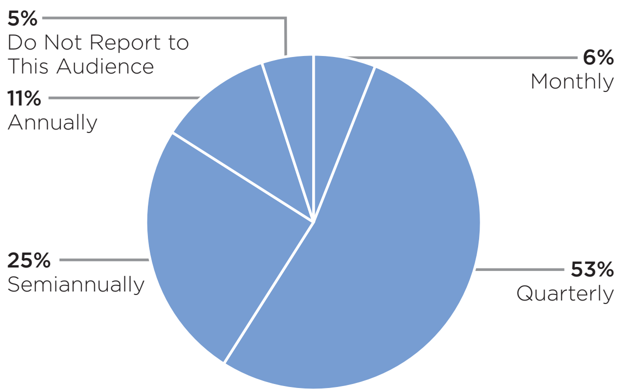
Select Differences Between Board and Executive Risk Reports

	Board Risk Reports	Executive Risk Reports
Goals	Primary goals: ▪ Assure the board of management's capabilities to manage risk. ▪ Clarify strategic assumptions, and characterize uncertainty. ▪ Provide independent, third-party assessment of risks.	Primary goal: ▪ Apprise the senior management of the current risks and ongoing mitigation efforts. ▪ Support risk owners in reporting on risks.
Key Features	▪ High-level summary of enterprise risk portfolio ▪ An overview of the ERM program and its initiatives	▪ Details on risk mitigation activities—current and planned ▪ Description of individual risk events, losses, and controls
Frequency	▪ Fifty-three percent of respondents report to their board once every quarter.	▪ Seventy-one percent of respondents report to their executive risk committees at least once every quarter.
Presenter of Choice	▪ Chief risk officer	▪ Head of ERM

Frequency of Enterprise Risk Reporting to Various Stakeholders

Percentage of Respondents

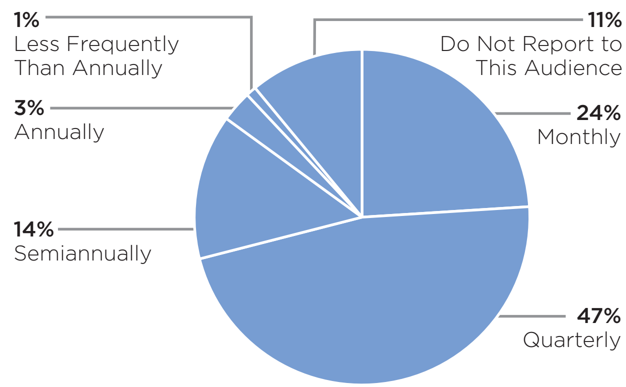
Full Board of Directors



n = 88.

Source: CEB 2013 State of Function Survey.

Executive Risk Management Committee



n = 88.

Source: CEB 2013 State of Function Survey.

To dive deeper into the full report and gain additional insight on the action items outlined, contact us at LRCProductMarketing@executiveboard.com.